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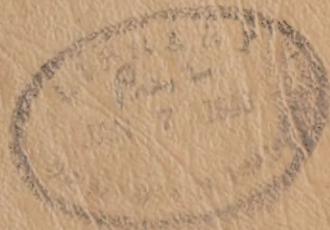
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Ottawa, Ontario
February 16-17, 1945

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The Commission appointed to inquire into the present position of cooperatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Ottawa, Ontario, - February 16-17, 1945

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman.

B. N. ARNASON)	
G. A. ELLIOTT)	
J. M. NADEAU)	Commissioners
J. J. VAUGHAN)	

Eugene T. Parker, K.C.	Counsel
Major H. D. Woods)	Associate
J. A. Chapdelaine)	Registrars
Colonel G. W. Ross	Executive Secretary

APPEARANCES:

W. B. Francis	Group of Cooperative Associations
R. H. Milliken, K.C.	Saskatchewan Cooperatives
W. H. Howard, K.C.	Private Grain Interests
W. P. Fillmore, K.C.	Private Grain Interests
R. R. Evans, K.C.	Canadian Wholesale Grocers' Association
S. P. Grosch, K.C.	Independent Poultry and Egg Dealers
G. S. Thorvaldson, K.C.	Income Tax Payers Association

Ottawa, Ontario,
February 16, 1945.

The Commission met at 10.00 a. m., Mr. Justice McDougall presiding.

THE CHAIRMAN: I think we can dispense with the usual opening statement. I see many familiar faces here.

MR. PARKER: I think so, Mr. Chairman. For the Ottawa sittings we have five or six cases to be disposed of, and I think it would be agreeable to all concerned if the brief on behalf of the Board of Trade of the City of Ottawa were taken first. The representatives are present and are ready to go on.

WILLIAM J. HALPIN,

Chairman,
Legislation and Taxation Committee,
The Ottawa Board of Trade,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. This brief you are about to read was prepared by whom? A. By myself.

Q. In what capacity? A. As Chairman of the Legislation and Taxation Committee of the Ottawa Board of Trade.

Q. The Board of Trade of the City of Ottawa is made up of about how many members? A. 322.

Q. Mostly business men of the City of Ottawa? A. Yes.

Q. Are there any members of the Board of Trade who are known to be so-called cooperatives? A. Not to my knowledge.

Q. Has this brief been submitted to the Executive Committee of the Board? A. To the Council of the Board.

Q. What I am getting at is, how representative the brief is. Hearing your voice we are hearing, through you, how many members? Has this the approval of all your members or of the Council or of the Legislative Committee?

A. We feel that it has the approval of the entire membership.

Q. How do you figure that? A. A copy of the brief has been sent to every member.

Q. Every member? A. Yes.

Q. Asking for his approval? A. No.

Q. Then how do you know whether they approve of it?

A. The Council, consisting of about twenty-five members, has control of the affairs of the Board and this resolution has been passed unanimously by the Board, so while there may be an odd member of the Board who might not concur in the statements contained in the brief, I have no reason to believe that there would be more than one or two.

Q. Your full executive have approved of it and it has been submitted to the full membership and you have nothing to say as to whether they approve or disapprove. Is that a fair way to put it? A. That is correct.

Q. Will you read it? A. This is our submission:

"On behalf of the Board of Trade of the City of Ottawa I beg to make the following submission:

"During the past year our Board adopted two resolutions on the subject of inequitable taxation, one in March last urging that legislation be introduced making public utilities, if municipally owned, subject to the same rates of taxation as similar utilities owned by private corporations and the second was a resolution passed in June referring to co-operatives.

"The resolution passed by us in March on the subject of

public utilities was subsequently endorsed at a convention of associated Boards of Trade and Chambers of Commerce in the province of Ontario. This resolution read as follows:

'WHEREAS Boards of Trade and Chambers of Commerce throughout the Dominion attribute to the spirit of private enterprise the tremendous economic progress made in Canada and United States up to the present time and are firmly of the opinion that this spirit deserves the greatest possible public support and encouragement; and

'WHEREAS the citizens of Ottawa are served by a member of well-managed privately owned public utilities; and

'WHEREAS these companies operating such public utilities, for the sole reason that they are private enterprises are subject to unfair discrimination in having to pay federal taxation (income tax and excess profits tax) while public utilities located in other parts of the Dominion are exempt from federal taxes if municipally owned;

'THEREFORE BE IT RESOLVED that we, the Council of the Board of Trade of the City of Ottawa, are of the opinion that the Federal Government should introduce legislation making any public utility or commercial enterprise owned or operated by a municipality subject to Dominion taxes in the same manner and at the same rates as any such undertaking privately owned. That this legislation is desirable and necessary is apparent from the following reasons:

'1. The present basis of taxation is inequitable and discriminatory.

'2. There is no justification for taxing of privately-owned enterprise while an exactly similar enterprise engaged in identical business operates free of taxation.

'3. The present basis of taxation not only places the privately-owned company at a disadvantage as compared with the operating of the municipally-owned corporation, but also places an added burden of taxation upon the privately-owned company and indeed on all private enterprise.

'4. The right of private enterprise is just as important as any of the four freedoms which have been set forth in the Atlantic Charter and have since been extensively publicized.

If we lose the right of individual initiative and free enterprise we lose the other freedoms as well.'

"The second resolution passed by our Board in June, 1944, referring to the tax privileges enjoyed by cooperatives read as follows:

'WHEREAS Boards of Trade and Chambers of Commerce throughout the Dominion attribute to the spirit of private enterprise the tremendous economic progress made in Canada and the United States up to the present time, and are firmly of the opinion that this spirit deserves the greatest possible public support and encouragement; and

'WHEREAS in earlier years Federal taxes were comparatively low, especially as compared with the prevailing rates, ranging from a minimum of 40 per cent to 75 per cent and more and cooperatives and so-called cooperatives were few in number and transacted but a relatively small proportion of the total volume of business done by individuals or corporations in a position to compete with these cooperatives, and under today's high corporation and excess profits taxes, private enterprise, unable to compete, is being forced to sell out to cooperatives.

'THEREFORE BE IT RESOLVED that we, the Council of the Board of Trade of the City of Ottawa, are of the opinion that the Federal Government should be requested to introduce legislation whereby cooperatives or rather the so-called cooperatives, who are not acting as selling agents for their members, but are engaging in outside activities in direct competition with private enterprise, would be subject to Federal taxation on the same basis and at the same rates as businesses operated by individuals or corporations. That such legislation is desirable and necessary is apparent from the following reasons, -

'1. The advantages to be gained from the initiative of private enterprise will be lost if private enterprise, subject to today's high Federal taxes, must compete with cooperatives exempt from Federal taxation. Private enterprise will disappear if taxation is not made equitable.

'2. There is no justification for the taxing of privately-owned enterprise while an almost similar enterprise engaged in identical business operates free of Federal taxation.

'3. The present basis of taxation not only places the privately-owned company at a disadvantage as compared with the so-called cooperatives, but also places an added burden of taxation upon all private enterprise.'

"Supplementing the above resolutions we wish to make it clear that we are not opposed to cooperatives or mutual companies or Government ownership as such. We believe that every citizen should enjoy the right to organize and do business as he desires. We merely seek equitable taxation

of all forms of business enterprise and we are opposed to any grant of tax privileges by any Government. 'No individual and no group of individuals should be compelled to subsidize any other group', or to express it another way, no form of business enterprise should have its profits taxed while another group is exempted and no form of business enterprise should have its profits taxed twice while the profits of another group are taxed only once.

"Whilst cooperatives have not been as great a threat in this district as they are in other parts of the Dominion, we feel that unless inequalities of taxation are removed, private enterprise could not possibly hope to compete with cooperatives and other forms of business enjoying tax exemption.

"This brief is presented with the thought in mind that unless cooperatives and private corporations are taxed alike the days of private enterprise are numbered.

"Respectfully submitted,

(signed) W. J. Halpin,
Chairman, Legislation and
Taxation Committee."

.....

THE CHAIRMAN: Have you any personal knowledge of the facts stated in the second paragraph of the second resolution: ".....and under today's high corporation and excess profits taxes private enterprise, unable to compete, is being forced to sell out to cooperatives." Have you personal knowledge of that fact?

THE WITNESS: I read extensively last summer of private enterprises that were selling out to cooperatives.

THE CHAIRMAN: That is a general statement.

THE WITNESS: It is a general statement, but in

correspondence I have had with western friends they have cited different types of business where the cooperatives had asked the owner of the enterprise if he wished to sell out, stating that if he didn't --

BY MR. PARKER:

Q. Do you personally know of such transactions and the reasons for them? A. No, just my general knowledge, which has been that private enterprises, feeling that they could not compete, sold out.

Q. In the very first recital of the second resolution you say: "Whereas Boards of Trade and Chambers of Commerce throughout the Dominion attribute to the spirit of private enterprise the tremendous economic progress made in Canada and the United States up to the present time....."

Are you suggesting that the cooperative movement in this country has not contributed something to the progress of the country? A. No. I am stating what I believe is a generally held opinion.

Q. What do you mean by generally held? Who holds it -- the Ottawa Board of Trade? A. It is unquestionable that tremendous progress has been made in Canada and the United States in the last one hundred years and it is only in comparatively recent years that the cooperatives have operated in large numbers.

Q. Even though it is only a short time, are you suggesting that they have not contributed something to the economic progress of the country? A. As stated in the resolution.

Q. Please answer the question. You have stated that private enterprise has contributed greatly to the economic progress made in Canada. You say nothing about the cooperatives. Is it the opinion of your Board that the cooperatives have contributed nothing? A. The Board has

endorsed this resolution and if they felt we should have included cooperatives they would have said so.

Q. Are we to assume that they exclude the cooperatives?

A. You are to assume that they agree wholly with this statement. That is their opinion.

Q. One other question. On page three you say: "There is no justification for the taxing of privately-owned enterprise while an almost similar enterprise engaged in identical business operates free of Federal taxation."

What do you mean by that? A. I mean that cooperatives engaged in merchandising are exempt from Federal taxation whereas incorporated companies, individuals or partnerships trading in the same manner are not.

Q. Are they trading in the same manner? That is the whole point of the question. Are they trading in the same manner? A. I believe they are.

Q. What do you base that belief on? A. Some of the original shareholders of cooperatives in the west invested, I understand, a sizable amount on which no interest had been paid while members taken in later were admitted at a membership fee of one dollar.

Q. I want to know if your brief is based on the assumption that these two forms of enterprise, cooperatives and private business "almost similar", to use your expression, are engaged in identical business? A. I believe there are cooperatives such as the Maritime Fishermen organized to act as selling agents for their members, and personally I see no objection; I do not see why such an organization should not function in that way.

Q. They contribute something to the progress of the country, I take it? A. Yes. But if we come to a co-operative which is buying and selling, as I take it, trading

in the manner that corporations, partnerships or individuals are doing, I believe they should be taxed.

Q. That is the point. Do they buy and sell, do they trade in the same way as private enterprise? A. There may be some variations.

Q. Are there any? Do you know of any variations? A. I cannot say.

Q. We have had evidence before the Commission that there are very fundamental differences. Have you any knowledge of those differences? A. No sir.

MR. PARKER: The next brief will be submitted by the Co-operative Union of Canada.

W. C. GOOD,

President,
The Co-operative Union
of Canada,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. You are President of the Co-operative Union of Canada? A. I am.

Q. And you have been filling that office how long? A. Twenty-four years.

Q. And during that time, or perhaps longer, you have been closely associated with the cooperative movement in Canada? A. Yes.

Q. This brief which has been submitted has been prepared by yourself? A. In part.

Q. Will you explain that? A. The brief was left in the hands of the committee and it fell to my part to do the original drafting. After that it was revised by the committee and submitted to various organizations throughout Canada and finally revised at the national committee meeting

in Winnipeg early in January.

Q. As I understand it, the Co-operative Union of Canada is a federation of similar provincial unions?

A. Yes, it is at present.

Q. And the provincial, in turn, is a federation of various cooperative unions in each respective province?

A. That is true, except that there are some interprovincial bodies that are affiliated directly to the national union.

Q. What really constitutes a member of the national union? A. Admission under the new set-up is now in process of realization and that is to be done by the provincial unions save in respect of interprovincial cooperatives.

Q. In any event you are satisfied, I take it, that the views expressed in this brief do represent the considered opinion of the national union in Canada? A. I certainly do, Mr. Parker.

Q. And any statements of fact made in this brief you are prepared to verify? A. To the best of my knowledge they are correct.

BY MR. NADEAU:

Q. Are credit unions included in your membership?

A. They have not been specifically included in the past in the membership of the national union but they will be in future, probably through the provincial credit union leagues.

Q. And farmers' insurance companies? A. As yet they are not specifically and formally included in the national union.

BY MR. PARKER:

Q. So that at the moment this brief is prepared on the basis of representing the producers and consumer cooperatives?

A. In general, yes.

Q. Will you read the brief? A. May I say just a word or two by way of explanation. That may be in order at this time. This brief we are presenting as the general foundation on which our case is to be built. It does not deal specifically with the question of taxation. We are presenting also to the Commission, some time today, or in a day or two, a supplementary brief which ties in with this, which we are not proposing to read at this moment, but in regard to which I should like to say a word or two later on after we have disposed of the present submission. The two briefs should be studied together by the Commission.

THE CHAIRMAN: I understand the other brief will be presented at our later sessions in Ottawa.

THE WITNESS: That will depend on what the Commission desires. We shall be glad to discuss the contents of it if you suggest that it should be presented publicly at a subsequent sitting. That will be in order, but for the moment we are submitting it for the information and study of the Commission, as well as for others who may be interested. Shall I now read this brief?

THE CHAIRMAN: Yes.

THE WITNESS: I may take the liberty of interjecting a few comments from time to time in order to clarify the argument.

THE CHAIRMAN: Of course.

THE WITNESS: The brief reads:

"It is a trite saying that the final purpose of all industry is to satisfy the needs of man. But, commonplace as this observation is, it seems everlastingly necessary to state and re-state this fundamental truth because, in that intricate web of human relationships that we call society,

intermediate ends are frequently confused with ultimate ends, to which confusions the selfish impulses of individuals make no small contribution. It becomes necessary, therefore, to repeat and to stress that the final test of any economic system is the degree in which it ministers to the real needs of man.

"Now it is an historic fact that the cooperative movement arose out of desperate human need, and that all cooperative development during these last hundred years has been linked with the problem of satisfying these needs. Those who have read the story of the Rochdale Pioneers know how terrible was the black misery of the 'Hungry Forties' in Britain, and how great a factor this was in stimulating the now famous Toad Lane experiment in collective self help. And those who have followed the history of the movement since that time know that every genuine cooperative that has been devised and launched has been for the purpose of serving more adequately the needs of people. And it is purely significant that within the short space of a century the tiny seed has grown into a mighty tree, bearing fruit for the healing of the nations and sheltering under its branches one fourth of the human race.

"Scope of Inquiry:

"Having regard to all this it is surely a useful question to ask what is the nature and significance of this cooperative system which has developed in large sectors of our economy and which seeks to minister more adequately to the needs of man. And, lest we be asked what all this has to do with methods of taxation may we remind this Commission that, while the primary purpose of taxation is to secure public revenue so that the Body Politic may function, it has

many secondary purposes or consequences, in the redistribution of the national income and in either preserving or destroying equitable relations between different parts of the Body Economic. Indeed, this Commission is specifically charged 'To make such recommendations for the amendment of existing laws (i. e. certain tax laws) as they consider to be justified in the public interest.'

It is, therefore, we submit, entirely relevant and pertinent for this Commission to inquire not only into the incidence of certain methods of taxation upon various sectors of our economy and upon different types of economic enterprise, but also into the respective contributions which these different types of enterprise actually do make towards the public interest. For this Commission, or for governments, to ignore this latter consideration is surely, we submit, to fly in the face of that fundamental postulate of all organized society, that liberty of action to the individual (or group of individuals) is granted in so far as, and only in so far as, that liberty of action is consistent with equal liberty of action to others, and consistent with the general welfare. Organized society very properly interferes with the enterprise of 'combines in restraint of trade', and other anti-social persons or groups. We submit, therefore, most respectfully but most emphatically, that it is not sufficient to have regard only to a theoretical balance of equity as between one type of enterprise and another, but that regard must be had also to the actual social consequences of different types of enterprise. And these considerations, we take it, lay behind the following recommendations unanimously made at the International Conference on Food and Agriculture (where forty-four nations were represented) held at Hot Springs, Virginia, in May 1943, namely,

'That all countries study the possibility of the further establishment of producer and consumer cooperative societies in order to render necessary production, marketing, finance and other services',

and that

'Each nation examine its laws, regulations, and institutions to determine if legal or institutional obstacles to cooperative development exist, in order to make desirable adjustments.'

"Furthermore it is important to bear in mind that co-operatives, while in their inception designed to benefit certain groups of people, are institutions increasingly committed to the public welfare, and that the preamble to the recommendations made at the Hot Springs Conference set forth several specific respects in which cooperatives did serve the public welfare and were, therefore, entitled to sympathetic treatment at the hands of every government purporting to be democratic.

"Nature of Cooperatives:

"We, therefore, proceed, with entire confidence in its relevance as well as its importance, to try to answer the question already put, namely, what is the nature and what is the significance of this economic system that goes by the general name of 'The Co-operative Movement.'

"First a precautionary note: The growth of the co-operative movement has been roughly contemporaneous with that of the joint-stock corporation, and it is in this connection that it must be studied. It has little relevance to a primitive agrarian economy or the age of handicraft and small scale personal enterprise. And further: If the

cooperative must be studied over against the joint stock company, it is of prime importance to take precautions against confusions of thought arising from the use of words having a variety of meanings. There is one word that creates considerable difficulty in this respect, the word 'profit', or 'profits'; and it will suffice if we clear the ground in this connection.

"When a farmer speaks of making a profit on the year's operations he is nearly always thinking of his labour income, or his wages as a self-employed worker, or he may include with his labour income, either consciously or unconsciously, interest on his invested capital and perhaps allowances for depreciation on equipment. When the individual merchant speaks of his 'profit' he, also, thinks in the main of his labour income. In the case of a large joint-stock company, however, where wages or salaries for everybody are provided for as operating expenses, the so-called 'profit' consists of something quite different.

"It is probably not immediately practicable to discard such a word as 'profits' because of the difficulty in finding a satisfactory substitute, and because of the universality of its use. It would be very helpful, however, if we could either define carefully what we mean whenever we use the term 'profit', or use other words whose connotation is more precise. And this applies with special force when we consider the nature of the so-called 'profits' of a cooperative as against those of an ordinary joint-stock company, or when we say that in its trade relations with its members a cooperative makes no profits and, therefore, cannot be taxed on what does not exist."

I should like to interject a few comments here. I have been very much impressed with the futility of arguments

based on the use of certain words whose meaning is not defined -- profits, savings, earnings, surpluses, etc. -- and I do submit most earnestly that all parties ought to get away from this sort of thing. The word profit is a very ancient word and, like all fundamental or root words, it has developed a great variety of secondary meanings, so that we get all tied up in futile arguments unless we know just what we mean.

THE CHAIRMAN: Even the House of Lords.

THE WITNESS: I do not doubt it, sir. In fact, it is a difficulty that humanity faces constantly to get thought conveyed to the use of words. As Tennyson once said, words half conceal and half reveal the thought beneath. I once read a book of four hundred pages on the word profit. It is an effort of economists in the United States to analyze the meaning, and study the workings out, of the word in American industry.

I suggest one thought in that connection because it is entirely relevant to the situation we face at the moment. These authors, after final analysis, reached what they called pure profits, and that in their judgment was the payment which is required for the undertaking of certain risks which were not insurable in any particular scheme. That is, there are a number of business risks that are insurable, and this insurability, as everyone knows, is progressing steadily, and more and more business risks are insured. But probably we shall never reach the end of the road and get everything insured, so that we can pay so much premium for escaping all kinds of risks.

So that from the point of view of some economists at least profits are payments for the undertaking of risks.

As such, of course, they are perfectly legitimate and proper and no one can find fault with them. But from the point of view of risk-taking, where does the cooperative come in?

This, I think, is a matter that has not yet been clarified in the minds of the Commission and of a good many other people. Do cooperators ignore risks? Do they require no payment for risks? Do they ask for no profit in the sense of payment for risk-taking? Not at all.

The cooperative is a group of people who collectively undertake to give some service for themselves through their own action, and collectively and individually they assume risks for which they require no specific payment. Every cooperative runs business risks, but in so far as it is in general a group of people organized to provide themselves with service, the risk can be assumed implicitly -- not explicitly -- by the group.

On the other hand, the joint stock company for the most part is a group of people who undertake certain risks for their own particular advantage, and the people with whom they deal are for the most part another class of individuals; and the two cases are so different that, to my mind at all events, it is quite clear that the insistence upon profits from the point of view of the ordinary joint stock company, the insistence by the cooperative, is ill advised and is rather irrational. I think, Mr. Chairman, that we should be extremely careful to think out what we mean and to try if possible to get across to the other fellow, in argument or discussion, exactly what we have in mind. We should all take that point of view.

THE CHAIRMAN: Do I understand you to say that the purpose for which the business is undertaken is the real

test? Is that what I understood a moment ago?

THE WITNESS: I did not state it in those words, and I am not sure that I get your point of view, sir. If I may repeat myself, both cooperatives and non-cooperatives must face risks that are not insurable and in any particular scheme of insurance. The joint stock company defends its taking of profits on the ground that it is payment for risks -- risk payment. The cooperative does not want that because the risk is divided over the whole group. It is internal risk assumed implicitly and therefore there is no particular fund set aside in the cooperative for the covering of such risks. I simply want to point out that the two classes are quite different.

THE CHAIRMAN: You say that the purpose of the cooperative is service?

THE WITNESS: Absolutely.

THE CHAIRMAN: And the purpose of the joint stock company is profit?

THE WITNESS: We come to that next, and perhaps I may say something of the word purpose. I continue to read:

"There are, of course, similarities between the ordinary joint-stock company and the cooperative. But there are also important and vital differences which it is well to point out and emphasize.

"Cooperatives and Non-cooperatives:

"(1) As to purpose. The purpose of a cooperative is to give service to its members at cost. The purpose of an ordinary joint-stock company, on the other hand, is to make profits for its shareholders out of business done chiefly with non-shareholders."

May I pause here, Mr. Chairman, to answer your question

if I can. Purpose after all is like motives: it is mixed. There are primary purposes in any undertaking and there are secondary purposes. There are intermediate consequences and more or less incidental or secondary consequences; and it is fair to say that the non-cooperative, ordinary joint stock company has, in addition to the primary purpose of making a return on the investment of shareholders, perhaps a number of secondary purposes, some of which may indeed be quite social and not anti-social. I can readily understand a shareholder investing money in an enterprise which he believes is socially beneficial, and that I fancy is what you might call a secondary purpose; and it is not our intention in making this statement to propose too sharp a line of demarcation between the cooperative and the non-cooperative in this matter.

It is fair to say, however, that the primary purpose -- I daresay this could be substantiated by an enormous amount of evidence that has come and will come before the Commission -- is quite obviously, in the case of the cooperative, to give service at cost to a group of people who want to provide themselves with service, and they are not thinking of anything else except incidentally.

It is also fair to say that the primary purpose of the non-cooperative or ordinary joint stock company is to secure a return on investment, and that I think is very apparent if you examine the various solicitations made for investment by various companies. What prospect does it hold out for a return on investment?

THE CHAIRMAN: You would not say that the non-cooperative has no idea of service?

THE WITNESS: Not at all; oh no. But it is fair to say, I think, that the primary purpose is obvious in all the

stock-selling campaigns and in the very fact that you have the names of a number of shareholders who have no connection with the enterprise, and whose idea is simply the investing of money and the return on money. But I do not wish this to be interpreted, I do not think any of us want it to be interpreted, as too caustic a reflection on the motives of people. To continue:

"(2) As to control. The ordinary joint-stock company is controlled on the basis of financial interest, e. g. 'one share one vote'. Therefore, any small group, or even a single individual, may 'buy up a controlling interest' in the company. Control is consequently undemocratic. The cooperative, on the other hand, is controlled on the basis of 'one member one vote', irrespective of the number of shares owned by any individual. Therefore, it is impossible for any small group to secure control of a cooperative. Its control is based on democratic principles.

"(3) As to the distribution of surplus or earnings or what are often called 'net profits'. The distribution of earnings in the case of an ordinary joint-stock company is to the shareholders, as 'dividends' on their investments. In the case of a cooperative the distribution of earnings is to patrons or member patrons on a patronage basis. If a cooperative has share capital and pays interest it is strictly limited to what is considered a fair interest on borrowed money. Such interest is usually regarded by the average cooperator as an operating expense."

I could elaborate this very greatly, but this is not the time. Continuing:

"(4) As to shareholders or members versus patrons or customers. In the case of ordinary joint-stock companies,

the shareholders and the patrons or customers are, in the main, different groups of people. There may be some slight overlapping, but it is negligible. Therefore, it is said that an ordinary joint-stock company makes its 'profits' out of dealing with the general public. In the case of a cooperative, on the other hand, the shareholders and patrons or customers are, in the main, the same group of people."

All I need say in amplification of that which is a very condensed statement is this: There are marginal overlappings in both cases, in the case of the non-cooperative joint stock company and in the case of the cooperative. The cooperative sometimes finds it impossible to confine its business wholly to its own members. The joint-stock company finds it impossible or impracticable to deal exclusively with those who are non-shareholders. The shareholder may wish to deal with his own company and he could not be shut out. There is a bit of overlapping on the edges, so to speak; but by and large this is a very important and far-reaching distinction. I continue.

"Here, then, are four vital differences between cooperative enterprise and other types of corporate enterprise; and to lose sight of the fundamental distinctions between the net surplus of a cooperative and that of a joint-stock company, because both are called by the same name, 'profits', is to be victims of fallacious reasoning.

"Consider the following typical cases:-

"Here are ten farmers who jointly purchase a threshing outfit, and hire a man to operate it for them. They charge each the current rate, and at the end of the season, after paying interest on the investment, operating expenses, and setting aside a reserve against depreciation, find that there

is a surplus of \$100. This is a saving resulting from an overcharge, and is returned to the ten farmers in proportion to the amount of threshing each has had done. Had they been able accurately to estimate their expenses in advance, they could have charged such a rate as would have balanced the account at the end of the season. In either case the ten farmers secured 'service at cost.' They did not make a 'profit' of \$100 out of themselves; and, if one were to call it a 'profit' on the season's operations it would have to be carefully distinguished from the profit that another person would make out of the season's operations if he, owning and operating the machines, did the work for the ten farmers and, after charging for all legitimate expenses....."

May I insert, lest it be misunderstood, the words "including his own wages" after the word "expenses". I am inserting this orally because it may be misunderstood; but all legitimate expenses do include his own wages. Continuing:

".....had a balance of \$100 left over.

"This example shows how we may get into trouble if we use the same name for quite different things.

"Another case: Here are 1,000 farmers in a mutual fire insurance company. Each signs a 'premium note' as an ultimate guarantee against unexpected liabilities; and each pays an annual premium (of much smaller amount) estimated to cover average losses. In a year when fire losses are light there may be a very considerable surplus. But this is merely a temporary overcharge and is certainly in a very different category from a similar surplus that would inure to the advantage of a private insurance company if this company took the risk for these 1,000 farmers. In

In the first case the surplus both morally and legally belongs to the 1,000 farmers; in the second case the surplus legally belongs to the private insurance company.

"Another case: Here are 100 people who own and operate for their own use a food store. The usual practice is to sell at what are called current retail prices. If, after so doing, and at the end of an accounting period, there is a surplus of \$1,000, can it be properly called a 'profit'? Cooperators do not think so; it is a saving effected by their combined operations and rightfully belongs to the members in proportion to the volume of their purchases. Cooperative law generally recognizes and enforces this right. But in the case of a joint-stock company owning and operating such a store which deals with what we may call the general public, a 'net profit' of \$1,000 is, by usage and by corporate law, divided among the shareholders in proportion to their share capital investments.

"Cooperators, therefore, claim that whatever surpluses may accrue at the end of an accounting period, in respect of trade relations between a cooperative and its own patron members are savings, that rightfully belong to these members. The obligation to return these savings to members on a patronage basis is recognized and enjoined by cooperative law or regulations or common practice. Cooperatives by this means give service at cost.

"Types of Cooperatives:

"The most general classification of cooperatives is into (1) Producers' Cooperatives and (2) Consumers' Cooperatives; but each of these has a number of sub-classes.

"Producers' cooperatives render various services and facilitate the marketing of their members' commodities."

I might interpolate here that some of them market their own personal services. Continuing:

"Their peculiar characteristics is that membership is limited to those who form a particular industrial or functional group. Linked with producer cooperatives are those furnishing industrial supplies and of these in Canada the most important are those serving farmers, fishermen and fruit growers. Their operations are directly or indirectly beneficial to all citizens."

May I digress for a moment in regard to that. There has been a disposition in some quarters to regard producer cooperatives as sometimes anti-social combines in restraint of trade. The matter has received a great deal of discussion in cooperative circles for the last two decades and it is being, I think, very firmly established that by and large producers' cooperatives are a very essential part of the whole movement from the point of view of public welfare; that the particular services which they render cannot be rendered in any other way; and that while there are groups of people who necessarily compose only a particular segment of the industrial body, it must not be thought, by reason of the fact that they are only a part of the people and not all the people, that their activities are not highly beneficial to the people as a whole. Probably the evidence submitted during the inquiry will show that the producers' cooperatives are a highly essential part of the whole movement from the standpoint of public welfare.

FY MR. ARNASON:

Q. Would you say that producers' cooperatives are somewhat similar to what might be termed trade union?

A. I think they are, Mr. Arnason; yes, if you analyze them

carefully. That is, they are the organization of a functional group, and groups may sell their direct labour power or sell the product of their labour power.

Ordinarily, in modern society, the trade union bargains for the sale of labour power under certain conditions, but there are here and there groups of producers who organize to -- what shall I say -- express their labour power in commodities. There are some in Canada, not very many; there were many in Britain about sixty or seventy-five years ago. Take the partnership factory where a group of specialist workers embodied their labour in commodities and disposed of the commodities. That I regard as exactly analgous to the farmers marketing organizations -- a group of wheat producers, for instance, who embody their labour in the product of wheat collectively and sell the wheat.

Continuing:

"Consumers' cooperatives as a class minister to the general needs of all people, irrespective of occupation, among which may be listed food stores, insurance companies, banks, telephone and electric systems, medical and hospital services, etc. All these supply essential human needs, transcending all differences of race, creed, or occupation.

"From another point of view cooperatives may be classified as locals or centrals; the latter are usually federations. Sharp lines of demarcation are difficult to draw. Concrete cases will be submitted by our provincial deputations."

I wish to emphasize the next sentence. Continuing:

"All cooperatives spring from the same desire to self help through service at cost, which prompts citizens generally to establish municipally owned water, transportation, light and power enterprises."

This is another case of the analysis of purpose. All these non-profit organizations have a purpose in providing services at cost, and there are various types of non-profit organizations. Continuing:

"Tax Position of Cooperative Members:

"While the cooperative in its transactions with its members has no income of its own, being merely the agent of its members for the carrying on of mutual services, this does not mean that its disbursements to members are invariably exempt from income tax. They may or may not constitute income in the hands of the recipient.

"For example, John Smith, a farmer, is a member of a marketing cooperative, such as a pool elevator. In that case the savings effected by him through the services of such cooperative may constitute a reduction in the costs of operating his farm and thereby increase the revenue from his operations and are definitely an addition to his income and should be so shown in his farming accounts. The same thing applies to a restaurant keeper, for instance, if he buys the supplies for use in his business from a cooperative. Where, however, the savings are effected on household and personal expenses they constitute no addition to the income of the recipient as they are not used in the creation of an income. The test in all such cases is whether or not the savings received by the member from his cooperative constitute for him an income or are savings from his income.

"Cooperative Development in Canada:

"The oldest and probably the most uniformly successful, of all cooperative enterprises in Canada is the Mutual Fire Insurance Company. This is at least as old as Rochdale itself, and has been an independent development. Recent

figures show 400 companies, with insurance of over one billion dollars."

I do not know whether you will overlook a personal reference, but my grandfather was manager of one of the first mutual fire insurance companies in Canada about the middle of the last century. It is a fact of some significance. That was ninety years ago. Continuing:

"The first cooperative store established in Canada on the Rochdale plan was founded in 1861, in Stellarton, N. S. It carried on with fair success for over fifty years. Some other stores launched in Nova Scotia during the latter half of the nineteenth century did not survive. The British Canadian Society, however, established in 1906, at Sydney Mines, N. S., has had a career of spectacular success, and is now the biggest store of its kind in Canada. Up to the present century, however, the cooperative store in Canada has had a very checkered career. Farmers' supply cooperatives, however, have had a better record, especially during the last twenty-five years.

"General statistics regarding cooperative development in Canada have been very difficult to get until quite recently, when the Economics Branch of the Dominion Department of Agriculture has taken over the job of collecting and tabulating what information is available. From their latest report (Nov. 1944) we give a general summary of the situation in 1943.

"Cooperative Associations:

"Dairy products 446; fruits and vegetables 161; grain and seed 105; livestock 225; poultry 194; honey 6; maple products 7; tobacco 10; wool 7; fur 2; lumber and wood 7; food products 518; clothing and home furnishings 229;

petroleum products and auto accessories 500; feed, fertilizer and spray material 625; machinery and equipment 125; coal, wood, and building material 413; credit unions 1,780; fishermen's associations 67; farm mutual fire insurance 400; telephone service 2,387; hospital care 60; miscellaneous marketing 14; miscellaneous merchandising 535. In addition there are various community entertainment, bus transportation, home building, restaurant, rooming house, funeral service, etc. associations. In the above list there are, of course, many duplications, as many co-operatives have highly diversified activities.

"The 1944 Government Report from which the above figures are obtained does not give the total. The latter, however, including credit unions and telephone associations would seem to be between 6,000 and 7,000."

I am responsible for this estimate. It is difficult, because we have no record of the amount of duplication. Many of these societies are engaged in eight or ten different lines and I hope the time will come when we shall have more accurate information on these points. Continuing:

"It is difficult to estimate membership, because so many people belong to several societies. A fair estimate would seem to be one million.

"As for money volume of business, it is impossible to give any figures that would be significant, on account of the extraordinary diversity of activities. In so far as figures mean anything, and excluding insurance risks, half a billion dollars would be a fair guess.

"The Co-operative Union of Canada, the National Federation, was organized in 1909. It is now in process of reorganization and consolidation on the basis of provincial

sections.

"Economic and Social Significance of Cooperatives:

"As has been already pointed out one must appraise the cooperative movement not in a handicraft setting but in this modern industrialized age of large scale business, whose dominant pattern is the joint-stock company. It is as an alternative to the latter that the cooperative takes on its special significance.

"Modern industrialized society faces three ever-present dangers, those of unemployment, monopoly and international conflict; and it cannot be a mere coincidence that they all tie in with the dominant economic pattern of the times. We believe that cooperative development has a very definite and helpful part to play in the diminishing of these dangers, and we submit, in briefest outline, some considerations in this connection.

"Unemployment:

"The mass unemployment that periodically afflicts modern society is obviously closely linked with the 'Business Cycle', which curious phenomenon has been closely studied in recent decades. There is now substantial agreement among economists that the prime cause of this economic disturbance is the uneven flow of purchasing power into the market, whether that market be for consumer goods or for investment funds for capital goods. Connected with this uneven flow, both as cause and consequence, are wide variations in the purchasing power of money. And behind it all, because inanimate funds do not move of themselves, are the purposes and wills of countless human beings. Generally speaking the motivating forces are hope of great gain or fear of heavy loss. Are prices on the upswing? Then

enterprisers of all sorts will increase their efforts at production, merchants will rush to fill their shelves, expecting to sell when prices have advanced still further, customers will hasten to buy, lest tomorrow's price be higher still. Then caution begins to assert itself. And caution turns to fear, and straightway the tide turns and everything is reversed. In the investment field, during the upswing, funds are eagerly sought and eagerly loaned, because 'business looks good.' But, when the tide turns, great stagnant pools of savings collect, partly because ordinary citizens curtail much of their buying 'until prices have reached rock bottom' as they say, and partly because investments do not offer, business 'looking so bad'. Modern industrial society is thoroughly familiar with the vicious spiral of inflation, followed by the equally vicious spiral of deflation.

"Now, if we examine the psychology and the practice of the joint-stock company, we can easily see how such a type of business enterprise lends itself to these violent fluctuations. Banks, investment houses, merchants, and all kinds of entrepreneurs, as well as ordinary citizens purchasing their daily needs, committed to the making of maximum 'profits' and the avoidance of loss, -- each plays his part in the dizzy dance during the boom period and a similar part in trying to be the first to leave the sinking ship.

"But the psychology and practice of the cooperative are of a different sort. The whole set-up is different. There are no 'profits' for investment, and there is no investment for 'profits'. Surplus earnings flow back regularly to the masses of the people, most of whom have many

unsatisfied wants, flow back again into the market for consumer goods, thus stimulating production. Investment there may be, but it is investment to finance a needed service for themselves, not to make a profit out of somebody else. And it is investment in an enterprise whose market is already assured through an organized and mobilized demand. Speculation as to future demand is reduced to a minimum. And the cooperative credit association, encouraging thrift and lending only for provident or productive purposes, and with its roots in the local community, stands in sharp contrast with the private bank, whose policies so often have the effect of accelerating inflationary or deflationary movements, and which so often finances enterprises that have little or no social value.

"Statistical data regarding employment in a cooperative enterprise substantiate these considerations, though co-operatives suffer with all others from fluctuations in the purchasing power of the dollar. (Exhibit No. 1)."

May I interject some comments at this point. This is an extremely condensed statement regarding one of the most tragic manifestations of modern industrialized society. Some twenty-two years ago in the House of Commons, before one of the committees, there was a lengthy inquiry into the whole question of credit and its connection with the business cycle. I happened to be at that time a member of that committee and my recollections are quite distinct. The inquiry went on for weeks and weeks, and I think it was very significant indeed. I believe it established beyond any doubt whatsoever that, without any intention at all, a particular set-up did contribute to the business fluctuations; and it is our belief that the cooperative set-up

and cooperative practices, while not wholly avoiding the consequences of the business cycle and while unable to cope effectively with the whole question of fluctuations in the purchasing power of money, are one of the most effective methods yet discovered for the smoothing out of that curve.

If I may be permitted, I would make a reference to what is said here in regard to the comparison between the cooperative bank and the so-called private bank. This was gone into very exhaustively during that investigation to which I have referred. We have all kinds of evidence from the operation of a cooperative bank which is limited to providing loans for provident and productive purposes, which is controlled by the community, where every loan is scrutinized and has to have as its ultimate objective something that is of benefit to the community. There is an interesting comparison there which it would be well for our Canadian people to examine carefully, because there is no doubt at all that the question of providing credit for various enterprises is a tremendously important one, and where credit is provided on the basis only of capacity to repay we are in for plenty of trouble.

Where other social considerations are necessary and where every credit committee has to make an appraisal of the real social advantages of the loan, and is not primarily concerned -- it has to be concerned in part but not primarily concerned -- with the question of making a profit on the transaction, the situation is very different indeed from what it is where you have a financial institution whose primary purpose -- and I am not saying this in any derogatory sense -- is admittedly the protection of depositors and the making of a net return on investment.

I cannot go into this matter at any length, but it was thoroughly inquired into at that particular time, and I myself took the opportunity of discussing the whole subject with a number of the then heads of Canadian banks. That is all I would say on that point at the moment.

As you will notice in the text, there are some exhibits. There is Exhibit No. 1 indicated in brackets after the sentence on which I have just been commenting. We have been collecting supplementary material regarding the questions of unemployment, monopoly, etc. and they are referred to as "Exhibit No. 1" and "Exhibit No. 2". Some of that material was not in shape to be presented to the Commission. Only yesterday we received some information from the international cooperative body, from the Acting President, Mr. Palmer. We have no copies, but at the final sittings we shall be able to present supplementary material bearing on some of these points. Continuing:

"Monopoly:

"The problem of monopoly arises naturally from the development of large scale business, and from the fact that with the progressive reduction in the number of enterprises, effective competition controlling 'profits' becomes increasingly difficult. Modern society has struggled with this problem for quite some time now, and various remedies have been suggested and tried. State regulation, outlawry or 'trust-busting', and socialization under state auspices have all been tried. The best remedy of all, as experience in many countries has shown, is effective competition from cooperatives, save in the case of 'natural monopolies', where the wasteful folly of competition and the danger of general exploitation are both avoided by public ownership. Examples of Canadian experience in this regard will be given

in our provincial submissions. (See also Exhibit No. 2)."

The document received yesterday from the International Co-operative Alliance has to do with this but, as I have said, we have no copies. They will be submitted in due course dealing with this particular question, bearing on the experience of England and our allies on the continent. Continuing:

"International Conflict:

"There is no longer doubt that, while the factors making for war are many and varied, those of an economic character are of first-class importance. Distress due to widespread unemployment, the efforts made by huge corporations to capture and exploit 'foreign markets' and the pressure of large business interests upon the political state, leading to hostile tariffs and the like, -- all these make their contribution to international tension and animosity. How great this contribution is may be realized when one studies what happened in the fields of trade and monetary policies between the two great world wars. One cannot expect commercial rivalry to end in other than armed conflict; and he who would guide national policies after this war is over should read, mark, learn, and inwardly digest the tragic record of the two decades 1919-1939.

"The only alternative to war is, of course, international cooperation in its widest sense. And it is to be expected that a philosophy and a movement specifically based upon the principle of 'Each for all and all for Each', and which has found international expression for almost fifty years in the International Co-operative Alliance, should be a more effective force for international amity and cooperation than an economic order based upon the fallacious doctrines that a man or an industrial group or a nation gains only

at the expense of others. It is to be hoped that nothing will be done to weaken the influence of the cooperative movement in the settlement of international relations after this war is over."

I would introduce this comment. It may be that some Canadians who have short memories do not at this moment recall how general was the belief that the interests of the industrial classes of a nation could be secured only at the expense of the interests of other similar groups or nations. If those who are older among us will recall the discussions that took place shortly after the last war, and those that preceded the last war, they will have had no doubt the same experience that I have had. Those discussions have burned themselves into my memory, and those who recall them will realize that the point of view which is now finding expression in the United States is a new point of view in the world; and it is not superfluous to make this statement, because we are going to slip back again into that fallacious doctrine, that each gains or can gain only at the expense of the other. Continuing:

"Here are some words from Mr. Murray Lincoln, prominent member of the International Conference on Food and Agriculture, in his recent presidential address before the Co-operative League of the U. S. A.:

'Man, the scientist, has crossed this continent in seven hours. He has tunneled a coal mine miles under the sea. He has brought the moon to his finger tips and saved a million lives with sulfa drugs. Man the scientist can outthink, outlive and outkill all comers. And, as a scholar has recently suggested ... he may one day destroy himself in his own laboratory.'

There has been some talk lately about buzz bombs. I do not know what the future holds in store in that respect. Continuing:

"We have won the battle of technology. We have lost the battle of morality. We have learned how to lengthen life. We have failed to learn how to live it. We have learned how to work miracles with things. And we have failed to acquire the simple humanities which will enable us to live with our fellows in peace. This page of human history belongs to men of goodwill who will dare devote their energies and their courage to the technology of human relations. And there is perhaps no group in American today who knows better, or lives more fully, the goals we must reach, than those who people the great American Co-operative Movement.'

"Cooperatives and Citizenship:

"In the preamble to the Hot Springs Conference, already mentioned, occurs the following paragraph:

'The democratic control and educational programmes, which are features of the cooperative movement, can play a vital part in the training of good democratic citizens, and assist in inducing a sound conception of economic matters.'

"Those who conceive Democracy in terms of casting a ballot every few years for the nominee of a political party have surely scarcely gotten out of the Kindergarden, have scarcely begun to understand what effective democracy means. Citizens in a democracy must be trained to understand and to participate in all those processes and practices which together make up democratic government, and without such training the mere act of voting has little or no significance.

Indeed, as we see all about us, voting has often become so meaningless that many never take the trouble to go to the polls.

"Now we think that anyone who will examine the practical workings of cooperatives will find in them probably the best training school for citizens of a democracy that modern society furnishes. When one takes into account the number of people called upon to participate in the control of cooperatives, and the frequency with which they are obliged to study, discuss, and decide, it is no wonder that almost the first thing the Nazis did when they attained power was to try to destroy the co-operative movement. Nor is it going too far to say that the mainstay of political democracy is a sound and vital economic democracy. In fact democracy is one and indivisible, and if it does not obtain in the economic sphere it will not long endure in the political sphere."

This has peculiar relevancy to Canada. Continuing:

"Cooperation and National Unity:

"One of the main principles of cooperative organization is open, unlimited membership.

"Reports from many parts of Canada tell of how people of different religious beliefs, races, occupations and political affiliations have been brought closer together through working toward a common aim in their local and regional cooperatives. In building and operating their co-operative enterprises, they have common aims; the aims of producer cooperatives are common to large groups; consumer cooperatives aim to unite people upon the one common ground upon which all people may unite -- the fact that they are consumers.

"Differences of race, religious beliefs, occupation and party politics are often disrupting forces in Canada. Extreme partisanship in these matters tends to disappear as people labour together in solving their social and economic problems through cooperation.

"It is submitted that the establishment and operation of local, regional, national and international cooperatives tend to erase sectional differences.

"Active encouragement and further development of the cooperative movement in Canada will unquestionably promote a greater measure of national unity and good will."

You have had and will still have plenty of evidence on that point. Continuing:

"Cooperatives and Social Security:

"The thought of many people has been focussed, in recent years, upon various forms and types of social security, or social insurance, against the manifold hazards of life. Thus we have the Beveridge scheme, the Marsh scheme, and all kinds of lesser schemes concerning unemployment, disease, accidents, and so on. As a rule these schemes are conceived in relation to the State as sponsor. But many of them could be, and many of them have been, worked out under the auspices of voluntary cooperative associations. There are probably good reasons why some forms of social insurance should be carried out under the auspices of the State. And there are also good reasons for carrying out as many as possible under voluntary cooperative auspices. For there are undoubtedly dangers connected with the vast increase in the power and scope of the political state, dangers of a huge bureaucracy, and of the concentration of vast powers in the hands of the few. There is a well-known saying that 'power corrupts, and absolute power corrupts

absolutely'. We think that Canadians, generally a self-reliant people, prefer to use self-help methods through voluntary associations to the maximum extent, admitting frankly, of course, that some forms of social insurance are of such universal importance that they must be universally applied, under state auspices.

"For all these reasons, and for many others that could be set forth, we think that both the citizens and the governments of all democracies should warmly support the development of cooperatives. And, if it should appear that the cooperative way is ethically and economically sound, that it can assist materially in solving the problem of unemployment, that it permits the people to become masters of their own destiny without augmenting dangerously the power of the political state, and that it is the freest of free enterprise, then parliament has not only the right but the duty of seeing that it puts no obstacle in its way."

One final word. You observe in the last paragraph the claim that cooperatives are the freest of free enterprise. I want to say a word or two about the use of two phrases which have been prominent in the last few years -- free enterprise and private enterprise. I fear there is terrific confusion in the public mind regarding the meaning of these phrases. Private enterprise, surely, ought to be conceived in contrast with public enterprise; otherwise it really has no sense. We have a good deal of public enterprise in the shape of public utilities, state sponsored and operated activities of all sorts. I think that is properly called public enterprise. All other types are private. Now current usage distinguishes between private enterprise and cooperatives and I submit that it is a distinction that ought to be made.

Cooperatives do definitely fall under the term private enterprise as distinguished from public enterprise. Surely if a joint stock company like the Canadian Pacific Railway, which is an enormous affair, can be called private enterprise, then a big cooperative, which is a group of people providing themselves with some particular service and is not managed by the state, ought to be regarded as private enterprise.

I do submit most emphatically therefore, Mr. Chairman, that we ought to be a little more careful in the use of these terms; and yet we find constantly that they are used quite lossely indeed. I myself may be guilty of referring to private enterprise in contradistinction to cooperative enterprise, but if I do I recognize the reference as a mistake.

Cooperatives are private enterprise in any proper sense of the term. In regard to free enterprise something ought to be said. Free to do what? Free from what? No enterprise under the law is free to do anything it likes. Everybody is subject to law, and therefore freedom cannot be unlimited, so far as the scope and character of the activities are concerned. It must be relative.

Freedom from what? From Government control? What other control? I think, Mr. Chairman, that if we try to discern the meaning underlying the use of these terms in modern discussion we shall find that those who use the term "free enterprise" have in mind what they describe as "undue Government control". That is my own guess as to what is meant by the expression; but it raises a question as to what amount of control is undue or excessive. How much is too much?

That is a question that leaves room for a good deal

of debate, but I say most emphatically that cooperative enterprise is not only private enterprise but is the freest of free enterprise, in that it does not seek anything in the way of Government control.

If that is the meaning that is to be attached to the word "free", that we do not want any undue control by Governments, then cooperatives fall into the same class as other types of free enterprise. I know that these particular meanings, which I think ought to be attached to these words if people were only careful in the use of words, are not currently attached to them.

I read a good deal of current argument and propaganda, and my own judgment is that current usage in regard to these two phrases is exceedingly misleading and we ought to clarify our thinking and be more precise in our use of terms.

I intimated, in connection with the other brief that we are presenting, that I should like to make a short explanation as soon as we dispose of the present one.

THE CHAIRMAN: The Commission wishes to thank you, Mr. Good, for your very clear and able presentation of the case from the point of view of the cooperatives.

MR. PARKER: And for my part, I hope that at a later date we shall have the opportunity of meeting you again and getting down to some specific cases when your supplement is filed.

THE WITNESS: I am sure that will be a pleasure when the time comes.

THE CHAIRMAN: In the meantime, is there anything you want to bring out particularly?

THE WITNESS: There are two points I have in mind but perhaps they should be deferred until later. That is in the hands of the Commission.

MR. GROSCH: May I ask the witness a few questions? I wish to meet the convenience of the Commission. Shall I proceed now or wait until later?

THE CHAIRMAN: I understand, Mr. Grosch, that Mr. Good has not been very well lately and I should not like to subject him to too great a strain at this time.

MR. GROSCH: The only trouble is that I shall not be here. If Mr. Good does not mind, I have very few questions to ask him.

MR. PARKER: On that understanding, I shall refrain from asking any questions myself. I may want to ask Mr. Good some questions arising out of the supplementary brief.

BY MR. GROSCH:

Q. If you will turn to page four of the brief, Mr. Good, you will see in paragraph four the following statement: "In the case of ordinary joint stock companies, the shareholders and patrons or customers are, in the main, different groups of people. There may be some slight overlapping, but it is negligible." Of course, that is a statement in general terms. May I bring it to more concrete form by taking an illustration. We have in the province of Saskatchewan what we call registered breeders' hatcheries; that is, only hatcheries which have registered, approved flocks may send their eggs to the hatcheries and sell chicks to the public at large. I have an illustration which I took from a report of the Department of Agriculture in which they said that the number of shareholders had increased from 31 to 38 in the past year, and they also state that they had hatched in that year 250,000 chicks. This is a

producer cooperative. Therefore the advantage of that goes to the producer. Taking those figures, 250,000 chicks and 38 members, what proportion of those chicks will go back to the members, if any? A. That raises a question that was broached at Winnipeg a short time ago as to what is the meaning of the phrase "doing business". Mr. Parker raised the question when Mr. Hull's brief was presented, and of course the obvious fact is that at some stage in the chain of business transactions every cooperative has to do business with outsiders, and to some extent completely with outsiders.

Q. Well, this is almost completely with outsiders.

A. That is particularly true of the producer cooperatives in the early stages of development. I should like to amplify my answer, if I may, for your benefit and the benefit of those who may be puzzled. It was correctly pointed out by Mr. Parker, if my recollection serves me, that the consumers' cooperative is up against the problem of securing supplies. It has to go to non-members to get supplies, and in that sense it does business outside its own membership.

Q. But I am trying to confine myself to the producer type of cooperative.

A. Yes, but this is a particular case of a general principle. If you will allow me to answer, I think I can answer it.

Q. I will not interfere.

A. It is an important principle and there is a great deal of confusion about it. In the case of a consumers' cooperative, they certainly have to do business with outsiders, but their cooperative structure and practice has to do with internal organization. Take the producers cooperative and there is a point where they do business with outsiders. The Wheat Pool does business with the general public, all those who want to buy wheat for

milling purposes. In the case which you cite, that is a producers' cooperative of poultrymen who collectively undertake the hatching of eggs and they sell the chicks to all who wish to buy. That is the point there.

Q. They advertise generally? A. Yes; they do business the same as all other cooperatives.

Q. Or other individual stores or concerns, joint stock companies? A. They do business at a particular stage with what we call the general public, but it is interesting to see the way in which those lines of demarcation shift. May I bring to your attention a development which has recently taken place in the midwest in the petroleum business. It illustrates the principle. Originally the farmers in the Kansas City area combined for the purpose of providing themselves with service in the distribution of petroleum products. They did a little bit of business. On one side they went and bought petroleum and did business with the public, so to speak, that is, the public in the sense of those who had oil supplies. See what happened. That was a very limited activity. The next stage was that they proceeded not only to buy and distribute but, instead of buying the refined product, they bought the crude materials.

Q. And did their own refining? A. Yes.

Q. Let us get back to the hatcheries.

A. I want to illustrate the principle. I will come back to that. In connection with the petroleum business, it is one of the most interesting illustrations we have before us. In the petroleum business, the area of cooperative structure and practice widens: personal distribution, then refining, and next a line to tap the sources, and the next stage a still widening area in which the cooperative system is applied, and finally oil wells. You have reached a stage of development

there where the whole cycle has taken place inside the co-operative organization; and so far as petroleum is concerned, there is no dealing with outsiders except that there is a certain surplus which they market outside. So far as their own particular business is concerned however the area has widened out until it has included the whole field, from the source of production, the oil wells themselves, which are owned on property of the members, pipe lines, refineries, distribution system, trucks going around to farmers who consume the production. From production to consumption it is all within one group. When we say we do not do business with outsiders, there you have the whole cycle completed.

Q. How could any such cycle, so far as hatcheries are concerned, bear a similarity to the cycle in oil?

A. That was what I was going to come to.

Q. Is it not a fact that there are only a few farmers whom it pays to keep these flocks? It requires a great deal of experience, does it not? A. You have asked me in what possible way this particular illustration which you have cited could be conceived as being comparable, in the sense of widening out, to the petroleum activities which I have mentioned?

Q. Yes. You gave that as an illustration.

A. There are a great many farmers interested in buying baby chicks and you could have a very large farmers' co-operative among whose members there might be very many people who would want baby chicks -- perhaps not all but a great many.

Q. But this is the production of the chicks.

A. Suppose you had that producer cooperative becoming a

department of a larger supply cooperative.

Q. You mean it would be part of the dairy business?

A. No; a dairy business is a producer.

Q. We have these things in the west. A. Baby chicks are farmers' supplies. I suppose every local organization of farmers may have diversified activities; many of them do. Many in the west and many in Ontario, which I know best, are engaged in both marketing members' commodities and in purchasing supplies.

Q. Let us get back to the hatcheries. A. Yes.

I cannot tell you exactly the line of development that will be followed there.

Q. Taking the illustration I have given you, according to my calculation there would be 6,578 chicks to each of the members. What would they do with those chicks? They would not consume them. A. No one ever dreamt that they were organized for the purpose of consuming the product in that sense.

Q. But this is a producer cooperative and the Act provides that its business shall not exceed 20 per cent with outsiders. A. I admit frankly that producer cooperatives, at a certain stage, must necessarily link up with or have some relations with people outside.

Q. How great a relationship? A. How great a relationship?

Q. Yes -- in this proportion, 38 members to 25,000 chicks? A. I venture to say that cooperative development will lead to a constantly increasing strip of -- pardon me; I am putting it the wrong way. Let me put it this way: As the cooperative movement develops, more and more will it be true to say that at no point is the cooperative dealing with outsiders. But that stage of development has not yet

been reached.

Q. Then it will get complete control when that happens? A. In the same way as the people of Canada have control of Canadian affairs.

Q. If that is conceded, then it will be in control of the joint stock companies; they will belong to the history of the past? A. I do not know.

Q. I am following your theory logically. A. I am not prepared to say how far or how often the joint stock type of enterprise will give way to the cooperative. I cannot foresee the future.

Q. At page six of the brief, in the last three lines, you say: "The test in all such cases is whether or not the savings received by the member from his cooperative constitute for him an income or are savings from his income." In the case of hatcheries, this constitutes for him an income, the selling of baby chicks? A. Yes.

Q. Therefore your conclusion is that this man should be taxed? A. Well, is he not?

Q. Not out west; definitely not. Here is the report of the Department of Agriculture.

MR. ARNASON: What part of the report are you referring to?

MR. GROSCH: The report, Mr. Commissioner, is --

THE WITNESS: There is confusion in regard to this. The gentleman says they are not taxed.

MR. GROSCH: The Commissioner's report is over the signature of the Deputy Minister of Cooperatives.

THE CHAIRMAN: Who is taxed?

MR. GROSCH: There is no tax; they are exempt from taxation.

MR. PARKER: Who is exempt, the individuals or the

corporation?

MR. GROSCH: The corporation; the individuals too, from all the evidence we have had.

THE WITNESS: I do not admit that. It seems to me that confusion arises from the use of the term "they". Who are "they"?

MR. GROSCH: Take first of all the cooperative association. Should they be taxed?

THE WITNESS: Are you asking me that question?

MR. GROSCH: Yes. According to your brief: "The test in all such cases is whether or not the savings, received by the member from his cooperative, constitute for him an income or are savings from his income." Take that producer. Should that producer's sales be taxed?

THE WITNESS: Do you mean the savings which the individual member of the hatchery receives?

MR. GROSCH: Yes.

THE WITNESS: I would say they should; they are obviously derived as part of his income.

MR. GROSCH: My information is that they are not taxed.

THE WITNESS: Does he make returns?

MR. PARKER: What Mr. Grosch's information is may or may not be of interest but it should not go on the record as fact. Personally I doubt if it is a fact; and, secondly, if it is a fact I doubt whether it is relevant.

MR. GROSCH: I do not want a controversy, but according to this theory you say he should be taxed.

THE WITNESS: The individual member, obviously, if he is getting part of his income from his own hatchery. Obviously he should be taxed on that as a part of his income.

MR. PARKER: There has been no suggestion that I am aware of that in such circumstances he should not be taxed.

This is the first time I have heard it suggested.

MR. GROSCH: The fact is that what should be and what is are two different things in practice. One other point, Mr. Good. At page nine, under the heading "Monopoly", you say: "The problem of monopoly arises naturally from the development of large scale business, and from the fact that with the progressive reduction in the number of enterprises, effective competition controlling profits becomes increasingly difficult." Let us develop that idea. Cannot the cooperative increase and become large-scale business?

THE WITNESS: Absolutely, yes.

BY MR. GROSCH:

Q. And being large-scale business, then naturally the consequence is that with the reduction in the number of enterprises competition becomes increasingly difficult. Therefore, if cooperatives increase to such an extent as to become large business, competition from joint stock companies grows less and less and in fact competition becomes, to use your language, "exceedingly difficult". That follows, does it not? A. Possibly.

Q. Probably, I would suggest. Do you not agree that "probably" is the word there? A. But what is the point of the question?

Q. The point is that, according to the figures submitted, we are reaching the stage in Saskatchewan where the dairy industry is driven into that position. I have shown that cooperatives --

MR. PARKER: I thought you wanted to ask this gentleman some questions and not to state what you know about Saskatchewan.

MR. GROSCH: I submit, my Lord, that in cross-examination

there is wide latitude.

THE CHAIRMAN: But remember the term "cross examination" is as difficult to define as the word profit in another field.

BY MR. GROSCH:

Q. I fully realize that, sir. I will put it this way. When a cooperative has expanded to such an extent, when it has developed as you suggested in the explanation you gave in the course, I believe, of certain comments you made on your brief, when you used the Canadian Pacific Railway as an illustration of private enterprise, when it has expanded and developed on that scale, then you say that such a large cooperative is a public enterprise.

A. No. What I said was that it could still be a private enterprise.

Q. You mean that if a cooperative became as large as the Canadian Pacific Railway it would then become a private enterprise? A. Not "become"; it would remain what it had always been, a private enterprise -- private in contradistinction to an enterprise that is state-owned or operated.

Q. And both being private enterprises, both being large like the Canadian Pacific Railway, and strong, like the Canadian Pacific Railway -- strong financially -- do you think then that the one should be taxed and the other be tax-exempt? A. I do not know that I am called on to express an opinion at this moment on the question of the propriety of taxing one enterprise more than another, but I rather gather that the problem posed to me is as to what is going to happen from the point of view of monopoly when the cooperative, so to speak, gets control of the whole field. But we are faced with the very same problem of

monopolies under Government auspices, and there has been a tremendous amount of discussion in Canada for years over the supposed necessity for railway competition. There is a good deal to be said on all sides of that question, as to whether the wasteful effects of competition in certain fields are a more important consideration than certain other aspects of the situation. I think I may state frankly, Mr. Chairman, that in my opinion there is a vital distinction between private monopoly and public monopoly. We have a number of public monopolies and I suppose every citizen has asked himself the question, how will you prevent public monopoly from becoming inefficient?

Q. And just as serious a question, how will you prevent private monopoly from becoming inefficient, either the C. P. R. or a cooperative, when it gets control and one is taxed while the other is not? A. Whether or not some form of competition between different types of enterprise is a final and absolute necessity for securing efficiency is a question I am not prepared to answer at the moment. We shall have to work our way through that problem as best we can, because we face it now in connection with a good many of our large public enterprises, if you like. Take the railway situation.

Q. But there is a distinction between public enterprise and private. You have agreed that a cooperative is a private enterprise, even a large cooperative, the same as the Canadian Pacific Railway. Should they not then be on an equal footing, on equal terms? A. They should be equally treated from the standpoint of equity; but, again, it depends on what you mean by equity.

Q. And that would have regard to all aspects, taxation as well as any other? A. I do not know where that

question is headed.

Q. It is not headed in any particular direction just yet. A. I do not know whether you want the rest of the question answered, as to the propriety of taxing public utilities.

Q. I am not interested in public utilities today but in private enterprise called cooperatives, expanding into large business, so large as to eliminate altogether or very greatly to lessen competition, and the one paying taxes while the other is exempt from taxation, both being financially strong. A. I would not admit that the co-operative does not pay taxes.

Q. But provision for exemption from taxation is now on the statute. A. Under certain conditions.

Q. What I am suggesting to you is that when a co-operative becomes as large as that, when it has passed beyond the primitive stages where it requires help, then the exemption clause should be dropped. A. I really find it difficult to understand what you have in mind in putting these questions.

Q. I have in mind getting some help from you.

A. First you raised the question of monopoly and you wanted me to envisage what would be the situation if we had cooperative monopolies.

Q. Yes. A. Well, I say it would be somewhat similar to the situation where we have state monopolies.

Q. But that is public; let us say with private enterprise. A. Well, similar from the point of view of their being in a sense public monopolies. For instance, if you had an enterprise so large, operating under cooperative auspices, that it could be said to embrace the interests of

all the people but not in any way under the auspices of Government, it would be private in one sense, in that it would not be subject to Government control, but it would be public in another sense when it had reached the stage where it included practically all the people. I am trying to find out what is in your mind.

Q. When that happens, public interest and cooperative interests are one and the same and they should merge. Is that right? A. What do you mean by merge?

Q. Well, you say they are the same; why have two doing the same job? A. You are raising a question which is more or less speculative.

Q. And with your experience I should like to have an answer from you, an answer from a practical man.

A. Here is a question as to whether or not we should take the position that the fading state is our objective ideally. There are some people who hold that the constant growth of the cooperative movement will lead to a new type of common enterprise and that the state will fade into the background. Take a municipal service such as the distribution of milk. Some people have argued that this ought to be undertaken under municipal auspices as a department of municipal government, and then we would call it public. If on the other hand you had in that territory a cooperative composed of milk consumers, including all the citizens of that community, you could have the same sort of system worked out under cooperative management, and one would be private in one sense, though it would have developed to such a point as to be properly called public inasmuch as all the citizens had been brought in, and they would be described as group consumers. And I might say, Mr. Grosch, that there are districts in the world -- I know of one in

the Maritimes -- where practically everybody in the community is inside the cooperative, and they do process and distribute their own milk along with a lot of other things.

Q. Then in that instance the municipal government is exempt from the tax, that is the Federal tax? A. Under the existing law.

Q. And you are exempt under existing law from Federal taxation and therefore you have the advantage of the public corporation while you are still a private corporation?

A. This specific question of taxation of cooperatives I have not touched on so far. It is a matter with which we intend to deal extensively when we come to argue our case and therefore I am not submitting any argument now on that particular point.

Q. Unfortunately I cannot be here. I was trying to get some information before leaving and I thought you could inform me. A. You are asking me a question with respect to certain matters of state policy. I may have my own opinions and they may or may not be of value, but I do not think I should express myself on that particular point at this stage. In their final analysis these are not very simple issues. The question of what is going to happen if and when the cooperative system develops to the point of monopoly is a fair question, but we are not facing it at this moment.

Q. But in this brief you are pointing out the dangers of monopoly? A. Yes.

Q. And these same dangers would exist if that monopoly were under cooperatives? A. There are certain possible dangers in public monopoly but we have certain ways of dealing with them. I should have added the qualification

that this is private monopoly; that is to say, a group of citizens who are not all the citizens, who are not the state, getting control of essential services. We have a good deal of experience in the world of monopolies international and national, as well as monopolies more or less local, and that is one problem; but the problem of dealing with public monopolies is another matter.

Q. It is private concerns we are dealing with and I should very much like to get your opinion. When a movement or a company under the name cooperative becomes considerable, being financially strong and prosperous, do you think it is fair treatment to have that concern exempt from taxation while another company, a joint stock company equally strong or perhaps smaller, pays the tax?

A. I do not think I should be expected to answer that question yes or no because it is not specific.

Q. Can I make it more specific? A. Perhaps you can; I don't know.

Q. Shall I try? A. If you like.

Q. If we have a cooperative with large reserves, say a million and a half, and we have a joint stock company with a reserve of say a million, both in the same line of business, do you think that the cooperative with a million and a half should be exempt from taxation while the joint stock company with a million is taxed? A. The question of the treatment of reserves has been raised and that is a matter which we shall deal with quite fully later on.

I do not feel called upon at this moment to express a personal opinion on the question and inasmuch as I am not authorized to speak for the movement as a whole on the question I think it would be a mistake on my part.

Q. You do not wish to answer the question? A. No, I do not under the circumstances, and for adequate reasons.

Q. I will not press you but I am anxious to have an answer. A. You will get it soon.

Q. But I shall not be here.

MR. PARKER: That is my learned friend's misfortune; it will not hurt the Commission too much. You must not put it on that ground.

THE CHAIRMAN: Tentatively we will declare the brief closed subject to re-opening.

THE WITNESS: Do you think, Mr. Chairman, I might make a reference to the supplementary brief now? This is an interim disposal of the brief that has been before you. May we return to the contents of it at a later time?

THE CHAIRMAN: Yes.

THE WITNESS: May I now make a brief explanation of the supplementary brief which has not yet been filed?

THE CHAIRMAN: Should we not await its production?

THE WITNESS: Very well.

MR. PARKER: I think that would be better.

THE CHAIRMAN: What have we next, Mr. Parker? Mr. Grosch has been following us for some time in the hope of being heard on two late briefs. I hope you are leaving space for him.

MR. PARKER: I thought he would wait until after lunch. I am afraid it is more than we can deal with summarily.

The Commission adjourned until 2.00 p. m.

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The Commission resumed at 2.00 p.m.

MR. SCOTT: I am appearing on behalf of the Chamber of Commerce, Mr. Chairman, and we should like permission to file a brief at the resumed sittings of the Commission which I understand will take place after the Easter vacation. We have filed with the Registrar a letter to that effect.

THE CHAIRMAN: You will be informed later as to the probable date.

MR. SCOTT: Thank you.

Brief Submitted By Independent Poultry and Egg Dealers

MR. GROSCH: With your permission, Mr. Chairman, I wish now to present the brief on behalf of the Independent Poultry and Egg Dealers. It reads:

"This Brief is presented on behalf of the undersigned independent companies and individuals engaged in the Poultry and Egg Business in the Province of Saskatchewan.

Differential Tax and Exemption from Taxation:

"Sir Josiah Stamp, in his book, 'Fundamental Principles of Taxation', states, 'Just as a differential tax tends to be confiscation of values for present owners, so a differential exemption or privilege tends to be a bonus to present owners'.

"At the very time a double taxation is destroying the value of shares and property in the Joint Stock Companies, exemption from taxation, as a vicious form of favoritism to cooperatives, is bonusing them and is increasing the value of their patronage dividends and property.

"In wartime when taxes are high, the privileged treatment given cooperatives increases the inequalities in taxa-

ation.

"Placed in this unfair position, joint stock companies and private individuals look for a way out and are prepared to sell their properties, while cooperatives, with large surpluses, built up through tax exemption, are prepared to buy such properties in localities suitable to them.

"We shall now submit information to prove that this very principle has been--and still is--operating in Saskatchewan.

"The three so-called cooperatives doing business in Saskatchewan are:

1. The Saskatchewan Poultry Pool Limited, under the management of the Dairy Co-operative Marketing Association Limited, Saskatoon.
2. Saskatchewan Co-operative Creamery Association Limited, Regina.
3. Manitoba Co-operative Poultry Marketing Association Limited.

"The Dairy Co-operative Marketing Association Limited, managing the Saskatoon Poultry Pool Limited, in 1937 purchased from one McIntosh the creameries and poultry and egg plants at Biggar and Kamsack, and a cheese factory at Leroy. On April 1, 1941, the Company took over all the stock and fixed assets of the Prince Albert Creamery Company Limited, which included plants at Parkside, Prince Albert, Speers, Debden and Rosthern. In 1943, the Company purchased from one Hugh Smith the creamery and poultry and egg plant at Young, and in 1942 built a cheese factory at Lanigan.

"According to the annual reports of the Commissioner of Co-operation and Markets of the Dept. of Agriculture, of the Province of Saskatchewan, for the years 1939 to 1943

inclusive, the number of members fell from 9,580, in 1939, to 3,419 in 1943; during the same period the paid up capital was reduced from \$6,123.00 in 1939 to \$5,518.00 in 1943, but net worth rose from \$17,301.00, (the first year it was reported), to \$45,521.00 in 1943, and the reserves rose from \$11,825.00 in 1940 to \$40,003.00 in 1943.

"Calculating a similar percentage of increase for the year 1944, the net worth would amount to about \$60,000.00, and the reserves to approximately \$55,000.00. The records will show that similar growth has taken place with other cooperatives in Saskatchewan during the same period.

"The Saskatchewan Co-operative Creamery Association Limited, Regina, which handles poultry and eggs, has recently acquired the plants at Nipawin, Norquay, Esterhazy, and Standard Products Company, Weyburn.

"Information is available that Burns & Co. Limited has completed the sale of its creamery plants, including provision for poultry and eggs, situated in Saskatchewan, to the co-operatives, and in the case of Canora, notice has been sent to the employees of Burns & Co. Limited, that on and after March 1, 1945, their employment with Burns & Co. Limited ceases and that they will be engaged by the Saskatchewan Co-operative Creamery Association Limited. The plants to be transferred to the Co-operatives are situated at Canora, Foam Lake, Kelvington, Medstead, Mervin, and St. Walburg.

"In this connection it may be stated that in 1944 Burns & Company Limited sold its creameries and cheese factories including poultry and egg plants in Alberta, twenty in number, to the Northern Alberta Pool, all of which shows the expansion of cooperatives and the absorption of independent operators. The enormous cash surpluses which

the so-called cooperatives were able to build up out of profits during war years, and which they have retained through the provision of exemption from taxation, has enabled them to expand by leaps and bounds at the expense of the limited liability companies, who are compelled to pay a large portion of their profits through taxation to the Federal Government, and who--through Government supervision and regulations--are restricted in expanding their businesses, while tax exemption and freedom from Government supervision have placed cooperatives in an unfair, and an unjust position, and this injustice has increased during war time, when taxes are high.

"In 1944 applications were filed with the Department of Agriculture of the Province of Saskatchewan for a license to operate egg grading stations at 303 points, in the province.

"Analysing the list of applications, we find the following:

The Saskatchewan Co-operative Creamery Association	98
Saskatchewan Poultry Pool.....	14
Manitoba Co-operative Marketing Association.....	10
Independents.....	<u>181</u>
Total.....	<u>303</u>

"Included in the independents is P. Burns & Company Limited, which company has recently sold some of its plants to the cooperatives.

"The Saskatchewan Co-operative Creamery Co. Ltd., after a lapse of over six years, again commenced handling poultry and eggs in 1934. Since 1934 they have opened 98 stations. This all goes to show how rapidly this branch

of the business is expanding.

"The following is a description of the three so-called cooperatives operating in this province:-

The Saskatchewan Co-operative Creamery Association Limited with Head Office in Regina:

"This Company was created by special act of the Saskatchewan Legislature, being Chapter 97 of the Statutes of Saskatchewan, 1939. The Company is without share capital, but possesses the same powers and privileges as companies operating under the Saskatchewan Companies Act.

"The Company took over the business which had been previously carried on by the Saskatchewan Co-operative Creameries Limited."

It has a board of management and is a body corporate, not according to cooperative law at all. Continuing:

"It assumed the liabilities of its predecessors. Under section 2 of the Act, Saskatchewan Co-operative Creameries Limited was dissolved, and its property, undertaking, and assets, were transferred to, and vested in, Saskatchewan Co-operative Creamery Association Limited. Section 24 of the Act authorized the Registrar of Land Titles, without payment of fees, to cancel the existing certificate of Title to the Property and grant a new certificate in the name of Saskatchewan Co-operative Creamery Association Limited. Section 8 of the Act provides that the Board of Management shall be a body politic and corporate under the name of Saskatchewan Co-operative Creamery Association Limited. The present Board was appointed by Order-in-Council of the Government, dated August 31, 1943. On September 10, 1943, the Company was registered under the Co-operative Marketing Associations Act of the Province."

That was done by legislation containing authority that it be done. Under ordinary rules it could not be done, but there was legislation to that effect. Continuing:

"In 1941 The Act of Incorporation was amended by Chapter 90 of the Statutes of Saskatchewan, 1941, and provision was made enabling the Company to become a producer-owned cooperative. While provision is made in the legislation whereby the Company may eventually become producer-owned, nothing has been done in that respect up to the present.

"The Saskatchewan Co-operative Creameries Limited, which was absorbed by the present Company, was formed under the Saskatchewan Co-operatives Act in 1917, and started business in a small way. Saskatchewan farmers and investors became its shareholders. It subsequently established and absorbed several competing concerns, and opened a number of branches. Later it sustained heavy financial losses on operation and got into financial difficulties, which culminated in 1931 when it found itself unable to meet its liabilities. In 1939, all shareholders were wiped out. The loss sustained by these shareholders was \$1,392,378.44. A new organization was created without share capital, and without any provision for the old shareholders.

"The Government had guaranteed a loan of \$600,000.00 to the Bank of Montreal, Regina, and was called upon by the Bank to make payment. The Government implemented its guarantee by paying the Bank the sum of \$592,205.48, which, according to Public Accounts, came from the Liquor Surplus and was subsequently written off.

"The Company was then placed in Receivership, and the Receiver, with the assistance of the Government, established

credits on which to operate the business. The Receiver carried on until April 1939, when the present Association was created. In 1938 the properties were conservatively appraised and valued at \$1,511,505.16, as appears on page 20, in Public Accounts of the Province of Saskatchewan, for the year 1939, and the properties were turned over to the present Association for that amount, payable over a period of twenty years, with interest at 4 per cent.

"The balance, which the Government had advanced to the Company, amounting to \$1,139,552.74, as appears at page 20 of Public Accounts for the year 1939, was written off and charged by the Government to the Public Debt of the province. The support given to the Co-operative Creameries by the Government had, in these two transactions, cost the taxpayer a total of \$1,731,756.22, and the shareholders \$1,392,378.44, the total loss sustained being \$3,124,134.66, although in the recital to Chapter 97 this amount is placed at \$3,126,543.27. The present association started its operations in 1939 with the above-named liability of \$1,511,505.16, after the debt of \$1,731,756.22 had just been wiped out. Since then, substantial progress has been recorded; liabilities have been steadily reduced. Accumulated earnings have resulted in a Surplus Account, shown in the last Balance Sheet at \$1,585,362.00.

"During the past few years the business of the Company has increased steadily. War conditions have created a more active demand for its products. The Company acts as a wholesale and retail distributor of pasteurized milk and other manufactured dairy products, and deals in poultry and eggs, with a chicken hatchery at Yorkton. It manufactures butter and ice cream and sells refrigerating equipment,

and does a Public Cold Storage business. Its sales cover an area beyond the Province, as it does a considerable trade in Manitoba, Eastern Canada, and the Pacific Coast.

"In addition to its plant at Regina, the Company operates at 23 other places in the Province, namely; Broadview, Carlyle, Humboldt, Esterhazy, Kerrobert, Langenburg, Lloydminster, Melfort, Melville, Moose Jaw, Moosomin, Nipawin, Norquay, North Battleford, Oxbow, Preeceville, Saskatoon, Shellbrook, Swift Current, Tisdale, Wadena, Yorkton, and Weyburn.

"The Company rents from the Provincial Government a three-storey brick building, 100 x 200 ft., on Albert Street, in Regina, which it uses as a Head Office and its Regina operations.

"The deferred liability to the Saskatchewan Government has been reduced from time to time until today it stands at \$369,000.00 according to page 18 of Public Accounts, 1943-44, and, with liquid assets of cash and Victory bonds, the Company is in a position to liquidate its entire indebtedness to the Government at any time.

"The item 'Investments' shown in its financial statement includes shares in Canadian Poultry Sales Limited, which is a selling agency in Winnipeg, under the Company's control.

"This Company controls and operates Standard Dairy Products Company at Weyburn, Saskatchewan, which was formerly a joint stock company. The Company has operated a branch at Weyburn for many years in competition with Standard Dairy Products Company, and now operates both plants, but continues to use the name of Standard Dairy as an indication to the public of continuation of the

former company, Standard Dairy Products Limited, which Company has been struck off the rolls by the Registrar of Joint Stock Companies of Saskatchewan. To the public, the Standard Dairy appears to be a Company in competition with the Saskatchewan Co-operative Creamery plant in Weyburn.

"According to the Company's financial statement, the tangible net worth is shown as follows:-

1942 -	\$758,124.00
1943 -	1,183,661.00
1944 -	1,585,362.00.

"The property was turned over to the present association by the Government for the sum of \$1,511,505.16, payable over a period of twenty years, with interest at 4 per cent. The Company's liquid position is such that it can make the balance of the payment immediately.

"Canadian Poultry Sales Limited is a subsidiary of the Saskatchewan Co-operative Creamery Association Limited, and Manitoba Marketing Association Limited. It acts as the selling agency for these two companies, and claims exemption from taxation as a cooperative. According to information available, \$1300.00 was originally paid in to the Company, and on January 31, 1942, this company shows a surplus of \$111,103.00. On January 31, 1943, a surplus is shown at \$160,265.00, and on January 31, 1944, the surplus is \$174,291.00. This shows an increase in surplus for 1942 of \$49,162.00, and for 1943, \$14,026.00, but as this is a selling agency, deriving its profits on a commission basis, it is difficult to understand this difference in revenue for the two years. The total revenue for two years was

\$63,188.00, but this does not include dividends paid to the two member cooperatives.

"Under supervision of inspectors, under the Federal Income Tax office, similar results to those shown for the cooperatives herein mentioned could not be obtained by Joint Stock Companies, as their profits are calculated on the profits in the basic years 1936 to 1939 inclusive, which were depression years in Saskatchewan, and profits, if any, were very small. Today's profits allowed to joint stock companies are based on 70 per cent of an adopted standard with a minimum of \$3500.00, which profits, are, however, subject to adjustment by the Board of Referees.

"The statements concerning the above-mentioned so-called cooperative companies are based on information which we believe to be reliable, but are incomplete, and it is respectfully suggested that the Commission obtain additional information on these three so-called cooperatives to complete the records.

"The question now arises, are these companies, 'organized and operated on a cooperative basis', in order to entitle them to exemption from Taxation, under the several taxing acts?

"In this connection Mr. H. Howard Stikeman states:-

'The test of a true cooperative qualified for exemption under this section is:

'1. It must be a cooperative of primary producers. Producers of manufactured goods or articles are excluded. For example, a cooperative organized to buy poultry or eggs from producers and then

killing and dressing poultry or grading the eggs for marketing would not qualify.

'2. The proceeds from the sale of the products of its members must be paid back to such members on a basis of quantity and quality (less expenses and reserves). In other words, it must only act as the agent for the member, and must distribute earnings on a patronage basis:

'3. Where supplies are purchased for the use of members they must be turned over to the members at cost (plus expenses and reserves). There must be no profit arise from such transactions.'

'4. The gross business done with non-members must not be in excess of 20 per cent of the total business of the cooperative.'

'If the Association fails to meet any one of these requirements, the Income Tax Department will rule that it fails to qualify for the exemption.'

"Applying Mr. Sitkemen's test to the business carried on by the above mentioned so-called 'cooperatives', it is submitted that when the companies commenced processing products received from the producers, or when they added new ingredients or altered the inherent nature of the article, they were not entitled to the exemption provided by the taxing acts.

"As to the Saskatchewan Co-operative Creamery Association Limited, that Company has none of the essentials necessary for a true cooperative, as it has neither patrons, nor members, nor an elected body of directors, and, it is submitted, cannot under any stretch of imagination qualify for exemption from taxation.

"The purpose of the Excess Profits Tax Act was to provide additional revenue to the Government for war purposes. To carry out this purpose, regulations were passed to restrict expenditures of corporations and by such means increase the corporate income, and proportionately increase the Government tax. These regulations provide a method of supervision and control over corporations.

"Prior to the war, the tax under the above-mentioned Acts was not burdensome, and accordingly the exemption from such tax, while irksome, did not provide any substantial surplus for the cooperatives, and therefore no serious differential between joint stock companies and cooperatives arose. During the period of the war, as profits increased, this became a serious matter, as in many instances the portion of the profits obtained by the Federal Government greatly exceeds the portion of profits permitted to be retained by joint stock companies. As cooperatives were exempt from such tax, they were able to accumulate enormous surpluses without any deduction for taxation, and during recent years the amount of the exemptions has actually become a subsidy to cooperatives. Considering the large amounts retained by the so-called poultry and egg cooperatives, as a subsidy, then we are immediately confronted with the fact that such subsidy is a discrimination in favor of such cooperates and against the independent poultry and egg operators.

"When the cooperatives distribute the surplus or profits among their patrons, then there exists a further discrimination as between the producers of poultry and eggs, who benefit by sending their produce to the cooperatives, as against those producers of poultry and eggs who do not (and for reason of location or otherwise cannot), send

their produce to cooperatives. There is therefore the double discrimination, firstly, as between the form of company, and secondly as between the producers. If the Federal Government were to use the amount of money, (of which the Revenue Department of such Government is now deprived through exemption of taxation to cooperatives) by distributing such money among the producers of poultry and eggs, either as a subsidy based on per pound of poultry or per dozen of eggs, then the producer of such products as a whole would obtain the advantage of such distribution on an equitable basis, and without discrimination one against the other, and the amount so distributed would not add to the general tax burden of rate payers throughout the Dominion, as it would be obtained from cooperatives, now exempt from taxation.

"Since cooperatives are exempt from taxation under the Income War Tax Act, and the Excess Profits Act, they are not subject to the regulations issued under such Acts. This gives cooperatives a free hand as to expenditures for advertising, repairs and maintenance of plant and equipment, and in extending their business; while non-cooperatives are subjected to strict Governmental supervision and drastic curtailment in these respects. While these regulations are incidental to the main provisions of the two Acts, they do nevertheless add another discrimination in favor of cooperatives and against limited companies.

"Incidental to the freedom from supervision under such regulations, and freedom from taxation under the two Acts, large surpluses amassed are being used by the so-called cooperatives, in part, to pay capital obligations and purchase existing plants owned by non-cooperative

companies, or from private individuals.

"The large surpluses being built up by cooperatives is held as an inducement to producers to become members of such cooperatives in the hope that when a distribution of such surplus, or portion thereof, is made, they will obtain the share to be distributed to member-producers. This has a tendency to have producers send their products to cooperatives instead of to independent companies, and discriminates in favor of the cooperatives, and against the independent company.

"When we consider that existing legislation granting exemption from taxation to cooperatives has created discrimination,

- "(1) As between a tax exempt cooperative organization and a joint stock company;
- "(2) As between a producer of poultry and eggs sending his product to the cooperative and one sending his product to a joint stock company, or individual operator;
- "(3) As between a cooperative organization operating without government supervision under the regulations of the Acts mentioned, and a joint stock company, subject to such supervision;
- "(4) As between a cooperative organization, tax exempt, having large surpluses for expansion and a joint stock company paying Federal taxes, and curbed in his expansion;
- "(5) As between a cooperative with large surpluses, due to exemption from taxation, holding these as an incentive to induce producers to become their patrons and members as against joint

stock companies to whom they now ship their produce,

it is not surprising to find so sound an economist as Sir Josiah Stamp state in his 'Fundamental Principles of Taxation':-

'If the State wishes for national reasons to benefit or assist certain trades, I think in general, the worst method is by discrimination or differentiation in taxation'.

"Discrimination Undermines Public Morale

"Today every employer is required to deduct from each wage cheque to his employee an amount for income tax. Employees in the dairy industry are well aware that from each pay cheque, no matter how small is deducted an amount in excess of that paid under existing War Taxing Acts by tax exempt cooperatives, and employees complain of this injustice and state that cooperatives should support war effort as well as individual employees. This sense of injustice undermines public morale. It makes the collection of taxes more difficult.

"It is a well recognized policy of the Federal Government that no individual shall take advantage of war conditions to amass wealth. To this end, restrictions on wages, with deductions for Income Tax, and price ceilings on commodities, have been enacted. There are no exemptions for the individual, but among corporations this rule is violated and cooperatives are granted exemptions. Such discrimination creates dissatisfaction and unrest.

"We have shown that large sums of tax free profits have been made available to the so-called cooperatives through

existing legislation for the expansion of business. Such cooperatives have extended their field of operation by the purchase of many creameries and PeeWee egg stations. Every plant absorbed by the cooperative immediately becomes tax free and the Government loses the revenue formerly received from taxation. Every such expansion by a cooperative means a corresponding recession by the Revenue Department of the Government.

"Existing conditions are undermining public interests and the longer they are permitted to continue the greater becomes the danger of the creation of a monopoly in the Egg and Poultry Industry. This would not only destroy competition, but would encourage other branches of industry, throughout the Dominion to demand similar treatment from the Government. The more tax-free property, the heavier the load on the property still taxable. Then taxes become pyramided, until the burden becomes so heavy that it becomes unbearable and the whole tax structure collapses.

"During existing conditions every taxing body is surveying the field to broaden its tax base. Here is an opportunity of placing a tax upon a privileged class, which, during the earlier and more difficult period of their existence, called for Government assistance, and received it by exemption from taxation, but now that these organizations have expanded and become wealthy corporations, the time has come when we hope they will voluntarily offer to bear with us the burden of income taxation, and particularly in wartime.

"Canada is not alone in having to find a solution to the problems which have arisen through granting tax exemptions to cooperatives. The same question was con-

sidered by a Royal Commission in Great Britain. That Commission reported in part as follows:

- #554. 'We will now consider the income derived by a cooperative society from the investment of its Reserve Funds. We have already said that there appears to be no sound reason for differentiating between reserves invested in stocks and shares and reserves invested in property and we recommend that the income from invested reserves should, irrespective of the particular mode of investment, be subject to tax.
- #555. 'We recommend in effect that a society should be treated exactly as a limited liability company trading in similar circumstances and under similar conditions, and if our proposals are acted upon, it will be necessary to amend the existing law in so far as it confers special exemption on cooperative societies.
- #556. 'In making these recommendations we are of the opinion that we are not in any way enlarging the scope of the present income tax. We have not sought to widen or to narrow the conception of the trading profit for we think that from the transactions of a cooperative society with its members a true trading profit can and does emerge'.

"Now under the British Finance Act, Registered Societies, wholesale, retail and producer, and mutual concerns are taxable to the same extent as limited liability companies trading under similar circumstances.

"If a precedent is required, it is submitted, with due deference, that this Commission might study with profit the report of the British Royal Commission on Income Tax.

"As the Saskatchewan Co-operative Creamery Association Limited did not submit a brief to the Commission at its sittings in Regina, there was no opportunity of cross examination to obtain information which was not available to the independent operator. Considerable information is now available through a booklet prepared by the Saskatchewan Co-operative Creamery Association Limited, over the signature of its manager-director, Mr. J.S. Turnbull, copy of which is attached to this brief. Special reference is made to the booklet, at page 13, to 'Eggs and Poultry', and at page 33 under the heading, 'Egg Department', there is the following:--

'Our egg production has increased 425 per cent since 1939 and as might be expected this large increase in volume has necessitated considerable enlargement of our facilities, some new buildings, but principally extensions'."

I have here a booklet which I will leave with the Commission; it is the only copy I have. If this were a joint stock company it would require supervision. The booklet is the most informative document, put up in excellent form, with the revolving door on the back showing the prospective producer member what he may obtain if he becomes a member and leaves our independent companies.

THE CHAIRMAN: This is the first picture we have had of the revolving door.

MR. ARMASON: With reference to the increase in the volume of eggs handled by the Saskatchewan Association,

425 per cent, do you know how that percentage of increase compares with the overall increase in production in Saskatchewan?

MR. GROSCH: No. I merely take that as a quotation from this book.

MR. PARKER: It looks to me like a telegram blank.

MR. GROSCH: To continue with the brief:

"Further information respecting this Association will be submitted at the Hearing.

"Attached as a schedule to the brief is a list of registered egg grading stations in Saskatchewan, 1944.

"Throughout this submission there is no intention of attacking the true cooperatives. It is fully realized that they and their members are at present entitled to take advantage of the tax exemptions contained in the existing Income War Tax Act, and the Excess Profits Tax Act. It is the unfair advantage which exemption from taxation under these Acts gives to cooperatives over their competitors, at a time when corporations other than cooperatives are called upon to support the war effort by heavy taxation, which is burdensome.

"It is felt, however, that all should contribute in the defence of King and Country and that none should be exempt in the payment of taxes. Surely cooperatives and their members will agree with us that in order to obtain a fair, just and equitable basis for taxation, there must be equality of treatment for all, and that discrimination in favor of any class violates this principle.

"All of which is respectfully submitted.

For: S.F. Grosch.

Counsel For

Swift Current Produce Co. Ltd.	Swift Current.
Stinson Produce	Moose Jaw.
Assiniboia Produce Co.	Assinibcia.
Estevan Produce Co.	Estevan.
W.J. Sharpe Co. Ltd.	Regina.
Rudin & Co.	Canora.
Western Produce Co. Ltd.	Melville.
Saskatoon Produce Co.	Saskatoon.
Hub City Produce Co.	Saskatoon.
Central Produce Co. Ltd.	North Battleford.
St. Louis Primary Products.	Saskatoon.
Mid West Creameries Ltd.	Regina.
Dominion Fruit & Produce Co. Ltd.	Kipling. "

THE CHAIRMAN: How was the assent of concurrence of the companies mentioned here obtained?

MR. GROSCH: Perhaps I might explain the origin of the brief and the reason for its lateness. The association of poultry and egg producers throughout the province, including cooperatives, met in Regina at a convention and the information they obtained from the proceedings of your commission created sufficient interest to lead them to a further discussion of the whole question, and after they had discussed it they called me into consultation, having decided that they would like to submit a brief giving all the information they could in this regard. My clients were well represented at that convention and they considered the question and appointed a committee to whom they gave instructions that I was to prepare this brief. They were unusually well represented in Regina.

THE CHAIRMAN: Were these various organizations personally in touch with you?

MR. GROSCH: They were in conference at the convention in Regina and I was called in by two. They were all in the room and I did not know this was going to happen.

MR. PARKER: Where did you get all the information set out on pages two and three? How do you know that is correct?

MR. GROSCH: This was included in the statement in connection with the creameries. I have no information as to Burns except what I have said in reference to Canora, that notices had gone out that on and after the first of March the employees would be no longer employees of Burns and Company but, if they wished, would be employees of the new concern.. My clients gave me the information.

MR. FRANCIS: Am I right in assuming that a witness will be called to substantiate the facts?

THE CHAIRMAN: I did not so understand from Mr. Grosch.

MR. GROSCH: Not unless you wish to have a witness.

MR. FRANCIS: There are a number of statements and it is important to get the source.

MR. GROSCH: What statements are they?

THE CHAIRMAN: Perhaps you can ask Mr. Francis.

MR. GROSCH: I will do the best I can.

MR. FRANCIS: I do not like to direct questions to counsel.

MR. GROSCH: I may know more than you think.

MR. FRANCIS: Please don't misunderstand me.

THE CHAIRMAN: Can you not get the information from counsel without having a witness sworn in the box? He will give you everything he has.

MR. GROSCH: What information do you want, Mr. Francis?

MR. FRANCIS: To give one or two examples -- and I am not putting this in the form of a question; I am making the statement in connection with my application that witnesses be called, if I may make that application.

THE CHAIRMAN: What is the application?

MR. FRANCIS: To have a competent witness called to prove these facts.

MR. GROSCH: Which facts?

MR. FRANCIS: The facts in the brief. For instance, on page nine you say: "Canadian Poultry Sales Limited is a subsidiary of the Saskatchewan Co-operative Creamery Association Limited, and Manitoba Marketing Association Limited. It acts as the selling agency for these two companies, and claims exemption from taxation as a cooperative." Then on page fifteen: "We have shown that large sums of tax-free profits" -- I stress the word profits -- "have been made available to the so-called cooperatives through existing legislation for the expansion of business." I am not aware that there is any evidence at all in support of that. Thirdly, a great deal has been said about the Saskatchewan Co-operative Creamery Association. At the top of page six the brief states: "While provision is made in the legislation whereby the company may eventually become producer-owned, nothing has been done in that respect up to the present." On that basis it is quite conceivable that this is a government-owned and government-controlled concern; therefore I think serious objection can be raised to treating all these facts as an attack on cooperatives and as supporting material in the claim that is being made against cooperatives. If this is a Government-controlled organization it is in a class entirely different from cooperatives.

MR. GROSCH: I am heartily in agreement with my learned friend's request and I would ask that Mr. Turnbull, the manager and chairman of the company, be produced and examined under oath.

THE CHAIRMAN: How do you propose to bring him?

MR. GROSCH: By subpoena of the Commission. My learned friend requests it.

MR. FRANCIS: Public notice of these hearings was given in very good time.

THE CHAIRMAN: So far as holding people to certain dates is concerned, and declining to hear them because their briefs were not presented promptly, you know, Mr. Francis, that we have not adopted that principle, and we are not going to. You have asked Mr. Grosch to produce a witness and he agrees, and if you insist we will have Mr. Turnbull at the adjourned hearing.

MR. MILLIKEN: If I understand Mr. Grosch correctly, he is saying that Saskatchewan Co-operative Creameries is exempt as a cooperative, and it is not a cooperative.

MR. GROSCH: I am saying they are a so-called cooperative and are not paying taxation.

MR. MILLIKEN: Because they are a so-called cooperative?

MR. GROSCH: No, but they are not paying taxes.

MR. MILLIKEN: I certainly understood the brief to imply that Saskatchewan Creameries is exempt under a false set-up, that is, that it is a cooperative. It is not.

MR. GROSCH: Under a false name.

MR. MILLIKEN: The name has nothing to do with it if, as you say, it is claiming exemption as a cooperative. I have in my pocket a telegram I have received from Regina

saying that the Saskatchewan Co-operative is not claiming exemption as a cooperative but as a Government-owned board. I got that information from Mr. Turnbull himself. But I gather from the brief and from what Mr. Grosch has stated that he is saying that Saskatchewan Creameries is getting cooperative exemption, when it is not a cooperative. Until it is taken over by the producers no one calls it a cooperative, except that the word cooperative appears in its name by legislation. I gather from Mr. Grosch, however, that he is seeking to leave with the Commission the impression that Saskatchewan Creameries is getting exemption because it has the word cooperative in its name and is masquerading as a cooperative. If that is what he is saying he is absolutely wrong. It is getting exemption on the ground that it is a Government board.

MR. GROSCH: My learned friend refers to a telegram from Mr. Turnbull. That statement should not be accepted merely on the strength of a telegram. That is all the more reason why Mr. Turnbull should come here and subject himself to cross-examination.

MR. MILLIKEN: The statement can be verified from the Income Tax Department itself, I have no doubt.

THE CHAIRMAN: Am I correctly informed in saying that Mr. Turnbull is at the moment a Government official in charge of this cooperative?

MR. GROSCH: He signs that booklet as Chairman of the Board of Management.

MR. MILLIKEN: Appointed by the Government.

MR. GROSCH: The management was appointed by the Government, but transfers of title and everything else are in the name of the cooperative. Look at chapter 97 of

1939. It is very clear that the Government does not own it. The title is in the cooperative association. Why is the title there if it is Government property? It should be in the name of His Majesty the King.

THE CHAIRMAN: If Mr. Francis and Mr. Milliken insist on having Mr. Turnbull here we will have him here.

MR. GROSCH: I shall be glad.

MR. MILLIKEN: I am not insisting on having Mr. Turnbull at all. That point is taken care of. But there are a number of other statements in the brief that Mr. Turnbull cannot speak to.

MR. FRANCIS: I am not asking that Mr. Turnbull be called, but I do say that we should have a competent witness who can prove the facts.

MR. GROSCH: Mr. Turnbull is the logical man. The Co-operative Creameries Association did not submit a brief in Regina and I had no opportunity of examining anyone from that organization.

MR. FRANCIS: I am not asking for Mr. Turnbull.

MR. PARKER: Whom are you asking for?

MR. FRANCIS: I am asking that a competent witness be called to prove the facts set out in this brief.

MR. MILLIKEN: Can Mr. Turnbull prove this statement that appears on page fourteen, which I assume has reference to employees of cooperatives. I do not know what else it means if it does not: "Employees in the dairy industry are well aware that from each pay cheque, no matter how small, is deducted an amount in excess of that paid under existing war taxing acts by exempt cooperatives, and employees complain of this injustice and state that cooperatives should support war effort as well as individual

employees." Can Mr. Turnbull prove that?

MR. GROSCH: I will have another witness for that statement. That is a new point raised now. The ones I want proved are the ones Mr. Francis speaks of.

MR. FRANCIS: I want them all established.

MR. GROSCH: Then I will bring two witnesses, Mr. Turnbull and somebody else.

THE CHAIRMAN: The Commission will read the brief submitted, and if we find that further evidence is required we shall ask the witness to come forward. That will meet the requirements of both parties?

MR. FRANCIS: Yes, my Lord.

MR. PARKER: I do not think you intend to leave just as it stands the following statement that appears on page fifteen: "Such cooperatives have extended their field of operation by the purchase of many creameries and PeeWee egg stations. Every plant absorbed by the cooperative immediately becomes tax-free and the Government loses the revenue formerly received from taxation. Every such expansion by a cooperative means a corresponding recession by the Revenue Department of the Government." Do you not wish to modify that statement by saying that although the Department loses corporate revenue, the personal tax revenue is increased to some extent?

MR. GROSCH: I am speaking of the two acts, the Income Tax Act and the Excess Profits Tax Act. With that limitation the statement is correct.

MR. PARKER: You do not follow me. Admitting, if you like, that the corporation tax is gone, the members who receive the dividends out of cooperative operations have their income increased and correspondingly pay some addi-

tional tax. In other words, it is not a total loss; part of it is made up through the other channel.

MR. GROSCH: It may be when distributed, but remember that the revolving door revolves in six, seven or nine years and in the meantime that money cannot be taxed.

MR. PARKER: Have you not heard evidence to the effect that a great deal of it was paid back?

MR. GROSCH: Not with this Company.

MR. PARKER: But taking the cooperatives generally. Do you wish to stand by that pronouncement?

MR. GROSCH: I have reference only to the two acts.

MR. PARKER: On page seventeen you say: "Throughout this submission there is no intention of attacking the true cooperatives." I take it you are attacking alleged or so-called cooperatives?

THE CHAIRMAN: "Spurious" is the word.

MR. PARKER: You say you are not making an attack against true cooperatives. Will you tell us what you mean by true cooperatives so that we shall know which ones you are attacking and which you are not?

MR. GROSCH: Until that is ascertained I can only use the word I have used there.

MR. PARKER: I thought you came here to help the Commission. You say you do not make any attack against true cooperatives but those that are not true. How do you distinguish them?

MR. GROSCH: Those cooperatives that satisfy the test set up by Stikeman in this brief are true cooperatives. If they do not satisfy that test they are not.

THE CHAIRMAN: I do not suppose you are prepared to define "cooperative", Mr. Grosch? Many people have

attempted it so far.

MR. GROSCH: No thanks, my Lord.

THE CHAIRMAN: I did not think you would venture on that.

MR. ELLIOTT: Are your clients all incorporated companies or are some incorporated and some private businesses?

MR. GROSCH: There are some in the nature of partnerships; Stinson Produce, for example.

MR. ELLIOTT: What about Assiniboia?

MR. GROSCH: That is the same. Wherever you see the word limited, that is a joint stock company, and where there is no "limited" it is a private concern.

MR. ARNASON: I believe the majority of those that do not use the word limited as part of the name are owned by individual proprietors?

MR. GROSCH: I think so. They are individuals who assume a trading name and are registered in the land titles office.

MR. ELLIOTT: The ones who are not incorporated, presumably, are complaining about the excess profits tax situation rather than the war income tax situation?

MR. GROSCH: That is so; and then of course they are in this position, that the Succession Duties Act gets them, and that is very serious. I point that out in the next brief.

MR. PARKER: We have not taken over the other commission yet.

Brief Submitted By Independent Hatcheries

MR. GROSCH: The brief on behalf of the Independent

Hatcheries is as follows:

"The undersigned independent companies, operating hatcheries in the province of Saskatchewan submit that in order to obtain a fair, just and equitable basis for taxation there must be equality of treatment for all. That a cooperative society should be treated exactly as a joint stock company trading in similar circumstances and under similar conditions. That a tax which exempts property is a discrimination in favor of such property and against property not so exempt. That Section 4 (p) of the Income War Tax which grants exemption from taxation to certain classes of property be repealed and equality of taxation established.

"In making this submission, it is not the purpose of the undersigned to deal unfairly with our cooperative competitors, but merely to remove the unfair advantage which they now enjoy, and to place them on the same basis as other competitors. The removal of such exemptions in England has not destroyed cooperatives, but has created an incentive for greater efficiency and better service to the public.

"Problems similar to our own have arisen in other countries, where cooperatives were granted exemption from taxation. A British Royal Commission on Income Tax was appointed in England in 1920 and reported to the Government; excerpts from the Commission's reports are contained in the submission to this Commission of the Independent Dairy Companies of this Province, to which reference may be made. The result of the report was, by amendment of the Finance Act, 1933, such tax exemptions were removed, and cooperatives were taxed to the same extent as joint stock companies.

While it is difficult to obtain reliable information as to similar action in other countries, it would appear that in Switzerland, Norway, Holland and France, cooperatives were taxed in 1934, and earlier years, and that they continued in business after paying such taxes.

"There are several cooperatives engaged in the hatchery business in Saskatchewan. We have dealt with the Saskatchewan Co-operative Creamery Association, Limited, Regina, in the brief filed by the Independent Companies in the Poultry and Egg business, and we wish to refer the Commission to such brief. There is also the Saskatchewan R. O. P. Breeders' Co-operative Hatchery and Marketing Association, Limited, concerning which Association the Annual Reports of the Department of Agriculture of the Province of Saskatchewan contains the following information:

"The Saskatchewan R. O. P. Breeders' Co-operative Hatchery Marketing Association Limited:

Report of 1937

The R.O.P. Poultry Breeders of Saskatchewan at a meeting held in October, 1936, decided to operate a cooperative hatchery during the season of 1937, and in January 1937 the Sask. R.O.P. Breeders' Co-operative Hatchery Marketing Association Limited was incorporated under the Co-operative Marketing Associations Act.

Report of 1939

We are planning on increasing our incubator capacity in 1940 season.

Report of 1941

Another 30,000 incubator capacity has been added

to our hatchery to take care of increased business. These incubators will be installed at Moose Jaw, where a branch of our hatchery has been opened.

Report of 1942

The year 1941-1942 has been the best yet. Our total sales were about double those of last year.....We are planning to install a 78,000 capacity Smith incubator at the Moose Jaw branch.

Report of 1943

In 1942-43 our association hatched approximately 250,000 chicks, 100,000 more than in 1941-42. More up-to-date equipment has been purchased for both the Moose Jaw and Saskatoon Branches. In April 1943, a 78,000 Smith incubator was installed at Moose Jaw, and a 65,000 Buckeye has been purchased for the Saskatoon branch for the 1944 season.

A departure from our old time policy of accepting eggs from R. O. P. Breeders only was instituted when eggs were accepted from R. O. P. sired approved flocks. These approved flocks were organized into an R.O.P. Hatchery Shippers' Association, under The Co-operative Associations Act. The R. O. P. Breeders' Co-operative Hatchery Association then sold the new cooperative shares in the hatchery, which made the new association a member.

The number of shareholders has increased from 31 to 33 in the past year, with a paid up

capital of \$950.00. Considering the nature of this business and with only 38 shareholders including "a member" of the R. O. P. Hatchery Shippers' Association, it is impossible for this association to keep its gross business with non-members within the 20 per cent required by statute in order to become tax exempt."

MR. ARNASON: In the paragraph you have just read you refer to the number of shareholders and you say that "it is impossible for this association to keep its gross business with non-members within the 20 per cent required by statute in order to become tax-exempt." What do you mean by that? As far as marketing associations are concerned, if the marketing business done by the cooperative for non-members does not exceed 20 per cent of the member business, then it complies with 4(p). I wondered from the wording of this sentence whether you had that aspect of the problem in mind.

MR. GROSCH: My reading of the section is not as wide as that.

MR. ARNASON: This is your interpretation?

MR. GROSCH: Yes, and this interpretation was placed on it by the operators themselves. My clients pointed this fact out to me.

MR. MILLIKEN: If this is true, then this cooperative is not exempt under the Act and if it is not paying income tax and has a surplus the income tax department are not collecting it, but they are taxable.

MR. FRANCIS: I happen to have been the solicitor for this organization for many years, and I know from my personal knowledge that the money used for this expan-

sion was borrowed from the Saskatchewan Co-operative Credit Society. Whether my learned friend accepts the statement of counsel or not, that is the fact.

MR. GROSCH: I will accept the statement. Can you say how much was borrowed.

MR. FRANCIS: I cannot remember the figures.

MR. GROSCH: I was informed it was only a small loan. Continuing:

"It is worthy of note that with a capital of \$950.00 the expansion in plant and business as reported to the Provincial Government could be attained. Tax exemption was no doubt a factor contributing to this abnormal success, but this association is well able to pay taxes with its joint-stock-company-competitors."

MR. MILLIKEN: Are you making the definite statement that this association was making a surplus and not paying taxes?

MR. GROSCH: I am not saying that. You must remember that I have got my information out of the enemy's camp. I am now trying to make an entrance through the revolving door and I am going round and round. Continuing:

"The real threat to independent operators of hatcheries in the province comes from such large so-called cooperatives as the Saskatchewan Co-operative Creamery Association Limited, with large reserves, and the expansion of its business activities through branches and Pee Wee egg stations scattered throughout the province. This Company has not paid taxes to the Government under the two Acts mentioned, but has used money for expansion which joint stock companies paid to the Federal Government, as taxes, to support the war effort. It is this

discrimination and inequitable treatment that hurts.

"Where a hatchery is owned by an individual, he does not escape taxation through exemption. He pays Income Tax during his life and at death his estate is subject to payment of Secession Duties, which bear heavily upon beneficiaries of such estates.

"As President of the Toronto General Trusts Corporation, The Hon. Charles McCrea, K.C., in his address at the annual general meeting in 1944 made a statement which is contained in the issue of 'The Globe and Mail' of February 7, 1944, as follows:-

'Death Duties Hitting Small Businesses'

"In war times many matters of importance are subordinated to the needs of the hour," said Hon. Charles McCrea, K.C. in his presidential address at the annual meeting of the Toronto General Trusts Corp. "We must be alert to the correcting of legislation which bears heavily in many communities to the disadvantage of local stability; as an instance I point to the serious situation arising due to the duplication of succession duties and income taxes in connection with the smaller manufacturing and industrial companies--where an individual has built up a business and then turned it over to a company which he has incorporated for such purposes. The company thereafter retains to a large extent the earnings made by it, to maintain and extend its business and accumulates a relatively large undistributed surplus.

'On the death of the owner, succession duties will be based on the value of the capital and

undistributed surplus or earnings of the company. His heirs will find themselves unable to obtain the benefits of such undistributed surplus or earnings because the company cannot distribute except by way of dividends when income tax will absorb the greater part, amounting as it does to a maximum of 98 per cent on dividends.

'The heirs may find that they are forced to sell the whole business as there is little market for the sale of a minority interest in a relatively small business. The most likely sale will be to a large corporation and if the business is established outside the larger centres this may in all probability mean its transfer to some other locality. If a sale cannot be arranged and bearing in mind that succession duties, both Dominion and Provincial, are payable in cash within six months of the owner's death, the business will have to be broken up and sold piecemeal, although the succession duties that must be paid on it were based on the value of the business as a successful going concern. In either case most of the employees will lose their positions and the locality will be vitally affected.

'In many cases it would mean the loss of an industry with 30, 40, 50 or 75 employees. It is questionable whether municipal authorities realize the effect of loss of revenue which would result or of employees who will lose their employment if the business is closed or trans-

ferred to some other area.

'Another effect of this tax situation is that the owner of the business realizing these possibilities will refuse to risk the further expansion of his business and will instead invest his profits in liquid assets in order to place his estate in a position to meet his succession duties. Again the community is the loser.'

"In order to shorten this brief, and avoid repetition, I will not repeat what has been stated in the brief filed by the Independent Companies engaged in the Poultry and Egg business; as the hatchery business is so closely associated with the Poultry and Egg business, I wish to have read as part of this brief, the portions of the other brief applicable to hatcheries.

"Abraham Lincoln, President of the United States during the Civil War said that it was impossible to have a nation part slave and part free. Similarly we submit, it is impossible to have a nation part taxed and part free from taxation satisfied with such condition during wartime.

"During existing conditions every taxing body is surveying the field to broaden its tax base. Here is an opportunity of placing a tax upon a privileged class, which, during the earlier and more difficult period of their existence, called for Government assistance, and received it by exemption from taxation, but now that these organizations have expanded and become wealthy corporations, the time has come when we hope they will voluntarily offer to bear with us the burden

of income taxation, and particularly in wartime.

"All of which is respectfully submitted.

Per: S.R. Grosch

Counsel For

Anstey Electric Hatchery Ltd.,	Saskatoon.
Creswell Hatchery	Wadena.
Early Hatcheries	Saskatoon.
J.J. Hambley Hatcheries,	Regina and Saskatoon
Longstaff Electric Hatchery	Saskatoon
Mid-West Hatchery	Prince Albert
Prairie Electric Hatcheries Ltd.	Regina
Regina Electric Hatcheries	Regina
Reliable Hatcheries	Regina and Saskatoon
W. J. Sharpe & Co. Ltd.	Regina
Smith Hatchery	Tisdale and Prince Albert
Swift Current Hatchery	Swift Current."

MR. ARNASON: On page three of the brief as well as on the previous page you refer to the increased volume of business and the increased hatching facilities acquired by the R. O. P. Co-operative Hatchery?

MR. GROSCH: Yes.

MR. ARNASON: I think we are both aware that there has been a tremendous increase in poultry and egg production in Saskatchewan.

MR. GROSCH: Quite agreed.

MR. ARNASON: And hatcheries have increased their business tremendously.

MR. GROSCH: That is quite right.

MR. ARNASON: This is just by way of information in

case you have it. Do you happen to have the figures showing the over-all increase in the production of hatcheries as a whole, and have you any information regarding the amount of new equipment which these hatcheries purchased?

MR. GROSCH: I tried to get it but these briefs came late. The point is, not that the hatcheries are expanding but that the R.O.P. Co-operative Hatcheries are getting an equal or greater benefit during wartime and not sharing the burden of taxation with us. They are getting the benefit and not sharing the burden.

MR. MILLIKEN: Are we to take it that the different firms named here, where the word limited does not appear after the name, are private concerns?

MR. GROSCH: Yes.

MR. MILLIKEN: I have an idea that the Early Hatcheries in Saskatchewan are limited.

MR. GROSCH: I copied this from a list given me by my clients. It is possible that they are, Mr. Milliken, but I had to accept what was given me and I put it down as such. Thank you very much for giving me the time, Mr. Chairman.

Brief Submitted By Canadian Wholesale Grocers Association

MR. EVANS: Mr. Chairman and gentlemen, the brief on behalf of the Canadian Wholesale Grocers Association is as follows:

"May we first express our sincere appreciation of the Government's action in passing Order-in-Council P.C.8725, the establishment under the terms of that Order of this Commission and the comprehensive scope of the terms of reference.

"We fully recognize the magnitude of the task you have on hand, the countless ramifications of the subject of your enquiry and the deep impact your deliberations and findings may have upon the economic, financial and social fabric of the nation. Upon you has been cast the burden of scrutinizing with infinite care the multitudinous claims and contentions, factual and theoretical, practical and ideological, which will be placed before you. In that we do not envy you but if we can by the presentation of this brief add anything of value to your deliberations we shall be grateful that we have been accorded this opportunity of appearing before you and presenting these submissions to you.

II.

"The Canadian Wholesale Grocers Association is an association comprised of 270 wholesale grocery houses and branches operating and carrying on business in every province of the Dominion from the Atlantic to the Pacific and from the international boundary to the farthest regions of the North employing directly several thousand employees and servicing virtually all of the 137,000 retailers located in almost every city, town, village and community in the Dominion carrying grocery lines.

"In making this presentation the Association will endeavour to confine its submissions to that portion of the field of your enquiry in which the Association is primarily interested, namely the effect which freedom from the provisions of the Income Tax Act and the Excess Profits Tax Act has had and may have upon

- (a) the wholesale grocery trade and underlying services and personnel.

(b) the national revenue and the economic and social fabric of the nation.

(c) and to a consideration of the equity or inequity of tax exemption.

"In this submission references to 'cooperatives' will refer to what are commonly known as 'distributive' or 'consumer' cooperatives as distinguished from 'producer' cooperatives and references to wholesale grocers or to the wholesale trade and to retailers will refer to wholesale concerns and retail businesses other than cooperatives unless otherwise specifically expressed or indicated.

"We feel that it is only desirable and proper that we should at this point unhesitatingly state that we are not possessed of any hostility to the cooperative movement as such, that we recognize cooperatives as a natural development of expanding economic conditions and changing times and that they are capable of offering that wholesome competition which is the underlying basic factor of a democratic economic structure. Every wholesale house has always had to meet strenuous unrelenting competition from its competitors locally and territorily and none of us desires to see this changed. That is the driving force which renders efficiency and service prime essential factors, demands distribution at close competitive prices and brings to the consuming public its needed requirements free from monopolistic influence or control, determines who shall fail and who shall survive. With that principle we are in full accord. But we do assert and we take this as being economically elemental that only that form of competition which is

fair and equitable to all can produce this result and that any other type of competition rapidly develops into a weapon of high destructive import.

IV

"The state and taxation are inextricably woven together. The one cannot survive without the other and the democratic way of life has through the experience of many generations firmly established that the essence of taxation is equality of incidence so that all shall bear their fair and proper share of the national cost of Government and of the benefits, public services and public security which the administration is bound to provide. Every form of individual or collective effort which directly or indirectly contributes to the national wealth or goes to the earning of a livelihood is a form of industry whether it be farming, lumbering, fishing, mining, manufacturing of services, service industries, labour or otherwise and it is industry in this broad general sense upon which the Government must levy a substantial part of its taxes and hence derive its revenues.

"It is also a basic elementary principle of the democratic system that progress, development and expansion follow inevitably in the wake of individual and collective enterprise nourished by the encouragement of freedom of opportunity for advancement, equality of opportunity for all and an equitable distribution of the incidence of taxation so that those who are progressive shall not be penalized and personal vigour, initiative and incentive weakened or destroyed.

"Any extensive departure from the practical application of this basic theory at once opens the road to or leads inevitably to those 'isms' which are the direct antithesis of democracy in both its theoretical and practical application.

V.

"The wholesale trade has long been an essential and integral part of the commercial and economic life of the Dominion and has contributed in no small degree to the development of an efficient servicing distributive system paralleling and frequently forerunning the developing economic needs of a rapidly expanding nation and the opening up of vast unsettled areas. These merchandisers have borne an essential part in the building of Canada, in the Maritimes, in Quebec, In Ontario, the Prairie Provinces and the Province of British Columbia by providing services and credits imperative to the daily needs of our people. In this no other class or type of merchandising media has rendered higher service to community and country than the wholesale grocers of this Dominion. Without a perfectly maintained and unfailing supply and distribution of food stuffs and allied products at all times, in all weather, in all seasons and in all places large and small, village, town and city, township, county, province and unsettled areas there could not have been nor could there continue to be national expansion or development.

"It has taken the exigencies of war to demonstrate to Governmental authorities the magnitude of the problem of keeping every hamlet in the Dominion steadily supplied with the requisite essential commodities of life at all

times and under all circumstances, to create an intelligent realization of the signal manner in which that has been accomplished by the wholesalers in the past and of the essentiality of maintaining in the future a competitive wholesale distributive system as exemplified by the wholesale houses through the medium of decades of experience extending through both good times and bad. And in this respect it must be borne in mind that dependent to a greater or lesser degree upon the wholesalers for their daily distributive requirements are approximately 137,000 retailers employing directly several hundred thousand employees and that the wholesalers supply to the retailers commodities which in the year 1944 aggregated the estimated sum of \$434,000,000.

"These facts are given to you as indicative of the magnitude of the part which the wholesalers play in the daily life of the people of Canada, in the daily life of those dependent directly and indirectly upon them and the retailers for their livelihood and in the credit fabric which enables the retail stores to maintain and operate their business on credits accorded them by the wholesalers and which enables the retailer in turn to grant essential necessary credit to the purchasing public. We fully recognize that today under wartime conditions credit is not the vital factor it once was but a return to peacetime normalcy can scarcely fail to bring with it and into our economy once more a need for strong financial backlogs capable of providing a credit fabric of the requisite flexibility and strength.

VI

"The wholesaler is subject to taxation under The

Income Tax Act and The Excess Profits Tax Act. Not only is the business itself subject to both income tax and excess profits tax but the proprietor or proprietors and in the case of incorporated companies the shareholders are also subject to personal income tax in respect of income or revenue derived by them out of business by way of distribution, dividend or otherwise. In this fashion not only the business itself but the proprietors and shareholders individually as well, contribute each and every one of them through the medium of taxation to the national revenue required by the Government to enable it to administer the people's affairs and provide them with the public services and public security which the life of the nation as a whole demands.

"Let us examine for a moment the position of such a wholesaler today. The wholesale grocery industry during the standard period 1936-39 was generally depressed and the profits earned by many wholesale houses in Canada in the standard period were abnormally low. The result was that recourse had to be had in many cases to sec. 5 of the Excess Profits Tax Act and a standard profit established under that section of the Statute. We have selected at random from our membership two wholesale concerns of long standing and the figures cited below are taken from their Income Tax Returns covering the taxation period 1943.

	Example 'A'	Example 'B'
Standard profit established at....\$	30,033.45	\$ 20,155.43
Total Volume of Sales	2,539,599.51	2,233,617.96
Net Earnings before Taxation.....	41,074.60	78,691.63

"The foregoing figures disclose that in the case of

one company its percentage of profit before taxation based upon aggregate volume of sales was approximately a meagre 1.6 per cent and that in the case of the other company its percentage of profit before taxation based upon aggregate volume of sales was approximately 3.52 per cent.

"The figures relating to the disposition of the aforementioned profits before taxation of \$41,074.60 in the case of Example A and of \$78,691.63 in the case of Example B might well be termed startling and are as follows:-

	Example 'A'	Example 'B'
Corporate income tax.....	\$ 7,393.43	\$ 14,002.49
Excess profits tax.....	<u>12,657.76</u>	<u>50,220.33</u>
Total corporate and excess profits taxes.....	\$40,051.19	\$ 64,222.82
Balance available for reserve and/or dividends	<u>21,023.41</u>	<u>14,468.81</u>
	<u>\$41,074.60</u>	<u>\$78,691.63</u>

"In addition to this the shareholders as such are also subject to individual income tax upon the distribution of the net balances of \$21,023.41 and of \$14,468.81. While the amount payable by each shareholder varies depending upon the income tax bracket in which each falls it can be reasonably assumed that the average would be not less than 50 per cent thereof or a total of \$17,746.11. In the final analysis the Government receives out of these two businesses in the form of Income Tax and Excess Profits Tax the sum of\$84,274.01 and from the shareholders individually the sum of.....17,746.11 a grand total of.....\$102,020.12

"Had these same businesses been conducted as a cooperative within the cooperative tax exemption provisions of the Income Tax and Excess Profits Tax Acts the situation would have been as follows:-

	Example 'A'	Example 'B'
Net earnings before taxation	\$41,074.60	\$78,691.63
Corporate Income Tax.....	Nil	Nil
Excess Profits Tax	Nil	Nil
Total revenue receivable by the Minister of Revenue from the operations of the business...	Nil	Nil
Balance available to the cooperative for reserve and/or distribution.....	\$41,074.60	78,691.63
	<u>\$41,074.60</u>	<u>\$41,074.60</u>
	<u>\$41,074.60</u>	<u>\$78,691.63</u>
	<u>\$41,074.60</u>	<u>\$78,691.63</u>

These examples represent one company transacting business in the western part of Canada and one transacting business in the eastern part. Continuing:

"Such a situation leads inevitably to innumerable vital social and economic considerations and we propose making reference here only to the major or more vital ones.

VII

"The above example shows the tax loss or revenue loss which the Government would suffer on the passing from the wholesalers to cooperatives of a sales volume of \$4,773,217.47 and when one realizes the colossal annual volume of wholesale sales and the growing trend of cooperative expansion and development the resultant tax or revenue loss begins to assume staggering proportions.

"It must also be borne in mind that the foregoing relates only to the wholesalers' tax liability and that the development of a multitude of cooperative retailers also tax exempt further accentuates the situation into one of even more serious magnitude. To these considerations there must also be added a realization of the innumerable ramifications which the cooperatives have assumed in the oil, coal, lumber and a multitude of other distributive services and of the continuously progressive extension by the cooperatives of their operational field. Let us follow for example a single commodity along its course from the raw product to the finished article as it reaches the ultimate consumer's hands.

"The owner of timber lands or timber rights engages in logging operations and sells the logs to a sawmill. This timber operation is subject to payment of income tax and in many cases to excess profits tax and the operator or operators either as owners or shareholders are subject to personal income tax to the extent of the revenue derived by them from the medium of such timber operations.

"The sawmill then saws the logs into lumber and that operation is subject to income tax and excess profits tax and the distributed proceeds again subjected to income tax.

"The sawmill then sells the lumber to a wholesaler and again the same taxation process applies.

"The wholesaler in turn sells to the retailer whose business is in its turn subject to income and excess profits taxes.

"In the final analysis the national revenue is augmented progressively by each successive step from the raw

state through to its ultimate placing in the hands of the consumer.

"The tendency of the cooperatives and in particular the larger cooperatives to extend their operational field by acquiring ownership of the source of the raw product and of all intervening processing and handling operations applies not only with respect to one single commodity such as timber and lumber but extends as well into many other essential commodities of extensive general and common use and into every available field.

"The effect of this is that where a wholesale cooperative owns timber lands or timber rights, owns the sawmill, takes its output and sells such output to retail cooperatives the Government may not receive a dollar of income tax or excess profits tax revenue either out of the business or businesses as such or under certain circumstances from the members of the same. Not one of these four movements contributes a dollar to the Income or Excess Profits Tax Revenue of the Government, both the industry and the individual being scot free and tax clear.

VIII

"Since a substantial part of the national revenue is derived through the medium of the corporation tax, the excess profits tax and personal income tax such an extensive expansion of the tax exempt field becomes a matter of national vital economic importance. Corporation, excess profits and personal income tax for the fiscal period ending March 31st, 1944, totalled approximately 61 per cent of the total national revenue made up as follows:-

Corporation and excess profits taxes	\$780,197,000	-30%
Personal income tax.....	813,047,000	-31%

"It has frequently been well said that the total volume of consumer goods sold in any specified period of time is not dependent upon the number or nature or class of the people or concerns merchandising such products but is dependant entirely upon the consumer requirements during that given period of time and that the cooperatives add nothing to or take nothing away from that volume but that every percentage increase in cooperative volume inevitably means a similar percentage decrease in the volume handled by their taxable competitors.

"Phrased in another way this means that every increase in cooperative distribution of consumer goods measured in terms of percentage of the total volume of national sales inevitably results in a material diminution of available national revenue.

"While detailed figures with respect to cooperative percentage increase are not available it would seem elementary that the extensively progressive increase in the number of cooperatives and in the number of cooperative members and the growing magnitude of the cooperatives themselves must of necessity not only imply but establish substantial inroads by the cooperatives into the total percentage of national sales with a resultant serious diminution of available taxable media and of income tax and excess profits tax revenue.

IX.

"The impact of this tax exemption and freedom from taxation upon the economic and social fabric of the nation cannot be ignored and the power and extent of this

impact in the difficult times which undoubtedly lie before us and in particular in the immediate post-war period render intensive study essential and imperative. In the first place this freedom from tax makes it possible for the tax exempt cooperatives to establish colossal reserves which will be available to them in the trying post-war period while at the same time their competitors by reason of heavy income tax imposts and excess profits tax charges are left with little if any in the way of reserves to see them through the difficult and trying times which may well lie ahead.

"In the second place this freedom from taxation leads to another inevitable result, namely that a non-taxable business is actually subsidized to the extent of the taxes which it would otherwise normally pay and that unless grossly mismanaged it must both in good times and bad have an equivalent tremendous advantage over its competitors available for use either in the further accumulation of huge surpluses, or in reduction in prices to an extent destructive to its taxed competitors, or for distribution among its members tax free, or for allocation in whole or in part to any one or several of these ends at the discretion or whim of those in charge or control of its operations. In this we are expressing no unwarranted fear. In times of recession or of depression those with substantial surpluses can meet the rainy day while those less fortunate are threatened with ultimate failure. Time at once becomes a vital factor. The quicker the weaker fail the quicker may the stronger profit thereby. Possession of superior surpluses gained through tax exemption provides a ready weapon of potent power with price

wars of deliberate destructive intent as a natural concomitant. When one realizes that the normal profit of a wholesale grocer before taxation is only between one per cent and two and a half per cent of total turnover the potency of this situation insofar as the wholesale grocery trade is concerned becomes immediately apparent.

"It is inconceivable that heavily taxed businesses can long continue to successfully compete with such tax free competitors; that such taxed businesses with unsubstantial reserves could stand the strain of depression under such competition; that failure after failure of one concern after another would not ensue and that if left to run its present course the existing situation would not inevitably result in the creation of a multitude of monopolies each alone and supreme in its own chosen field and territory.

"The tread in this direction is already evident in the retail trade. According to the records of the Wartime Prices and Trade Board in the first six months of 1944 in Saskatchewan alone a substantial number of retail stores passed from tax paying ownership into cooperative hands. In Ontario and particularly in the North Country the absorption by cooperatives of competing retail stores is well underway and in the other Provinces the same trend is apparent and obvious. It is of course true that during the latter war years Wartime Prices and Trade Board regulations have seriously restricted this movement and that the overall absorption to date has not been great measured in percentages but what has gone forward so far is clearly indicative of a definite trend and couples itself with

the clearly expressed intention of some of those most active in the development of the cooperative field. One need scarcely wonder why a tax paying retailer when confronted by a tax free competitor seizes the opportunity to run to cover, sells out to the cooperative competitor and disappears from the field. In the smaller rural centres this assumes serious proportions. Many of such centres are capable of supporting only one well stocked grocery store. The advent of a cooperative there immediately spells disaster for the taxed merchant forced to compete against a tax free competitor. The more extensive this absorption the more the remaining taxable survivors will have to pay until this vicious spiral induces one by one to fall leaving a perfect monopoly in its wake.

"In the third place the development of a vast body of tax free enterprises involves a further problem of national import. No state can operate without funds and all state funds emanate from taxation. Industry in the broad general sense hereinbefore indicated or in other words 'business' is the source directly or indirectly of the great bulk of the national revenue and once industry or business of a tax-free nature has reached certain proportions it becomes elementary that the required national revenue cannot be acquired from the remaining taxable industry or business without taxing such remaining industry or business out of existence. The state in consequence must then take over all tax free industry or business and allocate to itself in lieu of taxes the income or revenue derivable therefrom and at this point state socialism is attained.

"If state socialism is to become part and parcel of

our economic and social fabric it should become by virtue of the wishes of the people themselves as exemplified at the polls and not through the creation or permitted development by a Government of special privileges through the medium of tax exemption or otherwise."

I hope this will not offend any of my friends who may have differences with me. I did not intend to interject politics into the brief. Continuing:

"As already intimated there are thousands of wholesale houses, branches, retail stores, their owners and their thousands of employees and their families directly and dangerously affected by the growth of non-taxable competitive businesses and whose welfare and livelihood are fast falling into jeopardy.

"While it is difficult and perhaps even impossible to ascertain the magnitude which the tax free movement has assumed some figures are available which give at least some helpful guidance. For example farmers' cooperatives alone occupying as they do only a part of the cooperative movement have reached mighty proportions transacting in the year 1943 a volume of business amounting to \$352,785,598. Detailed figures relating to farmer cooperatives only are set forth in Table A hereto."

The Commissioners must have an indelible impression of this on their minds because I have seen it in many other briefs. Continuing:

X

"We have not challenged the right of the cooperative movement to an integral part in our business and commercial life but we are vitally concerned with its freedom from taxation when competing directly with other businesses

engaged in the marketing of the same or similar products and which are subjected to severe taxation. It is difficult to conceive wherein lies the equity of one business being called upon to bear its share of the national burden while a direct competitor is not called upon to assume any similar responsibility and while at the same time one and all receive from the state the same identical benefits of public service and public security.

"Furthermore if the cooperative movement constitutes a fit and proper economic business and social medium for some then it must also constitute a fit and proper medium for all. We are unaware that there has ever been any democratic recognition of the principle that in a democratic state there should be any discrimination against or special privileges accorded to any group, class, colour, occupation, race, religion or creed and we say that if the cooperative movement should be open to say poultrymen as a tax free venture then it should also be open to any other group of citizens regardless of group, class, colour, occupation, race, religion or creed. There seems to be no foundation in equity or in our jurisprudence for the granting of such special privileges to say poultrymen or any other specified or enumerated category and refusing such special privileges to all beyond that pale.

"We would be interested in knowing upon what principle the poultrymen for example surrounding a certain village should be entitled to engage in a tax free cooperative movement while the villagers themselves are prohibited from so doing or why the workers in a factory should be so precluded when others are accorded such exceptional rights or by the same token why the shareholders or the

customers of say a wholesale house or a retail store should not be possessed of and accorded similar special privileges or why white collar workers or others should be proscribed. Taken to its logical conclusion if such special privileges or rights are accorded to one they should be accorded to all. The result would of course be a foregone conclusion. All business would soon become wholly or partially tax exempt, the proceeds or savings or earnings derived therefrom be also so exempt and the national revenue from these sources be depleted to approximation of the vanishing point.

XI.

"Ownership of countless wholesale and retail concerns in Canada is distributed among scores of thousands of individual Canadian citizens all of whom have invested their savings in these businesses in the firm and proper conviction that they could meet their competitors on a fair and even basis. Extremely high taxation has been borne without protest as a concomitant of the responsibilities of citizenship in bearing a share of the cost of Government and of prosecuting the war. None of them ever at any time contemplated that it would be possible for them or for anyone else to carry on business and then at the end of the year instead of paying a tax simply split the amount of the tax among themselves call it 'savings' and be all tax free.

"Now that they are becoming aware of the fact that some pay and some don't a restlessness of spirit is becoming daily more evident. In the face of the facts one could scarcely gainsay their rights to assert themselves politically and otherwise and demand that they too be given



similar tax exemption.

"Doubtless if all businesses were now taxed equably and a proposal to subsidize any class by means of tax exemption were submitted to Parliament it is inconceivable that such a program would receive other than scant consideration. Conversely it is inconceivable how Parliament having granted tax exemption privileges to special classes could refrain from either granting similar tax exemption to all other classes or removing the existing tax exemption privileges.

"We do not believe that taxation should be used as a means of social or political action or discrimination or as a punitive weapon, nor do we believe that the original exemption of cooperatives was so intended, neither do we believe that Parliament realized the extremities to which this tax exemption would ultimately lead. The fact is however that the consumer cooperative movement in its original inception consisted simply of a few banding themselves together to make combined purchases. When the transaction was completed the account was reckoned up and each member paid his share. In this case the organization was considered merely an agent of the members but this original conception bears no resemblance to the cooperative movement as it exists today. Once certain classes were granted tax exemption the possibilities for gaining distinct and valuable advantages quickly became apparent with the result that those classes who were accorded this special privilege extended their operations until they have now attained an intricacy and magnitude inimical to the entire national tax and business structure. This tax exemption privilege was comparatively insignificant in its

original introduction. It was accorded at a time when the tax imposts on business had not attained their present dangerously burdensome proportions. In 1930 the corporation tax rate was 10 per cent and total income tax collections for that period aggregated \$71,048,022. Furthermore at that time the cooperative movement had not then assumed serious magnitude.

"By 1939 the corporation tax rate stood at 15 per cent except in the case of consolidated returns which were subject to a 17 per cent rate. By the 1939 war budget the above rates were increased to 18 per cent and 20 per cent respectively, the total amount realized through the medium of income tax being the sum of \$134,446,566. Even at this time the rates had not reached unbearable proportions nor had the cooperative development then assumed a serious magnitude.

"By 1943 however the rates had reached the amazing range of between 40 per cent to 80 per cent under the Income Tax and the Excess Profits Tax Acts except in the case of companies having net incomes under \$5000. in which case the rate amounted to 30 per cent. Total income tax collections for 1943 reached the staggering figure of \$1,620,475,000. In addition to this the volume of business conducted under the guise of cooperative effort had mushroomed in fantastic fashion. By reason of the changes which have taken place since 1930 and by reason of present-day imposts and profit limits so scaled that capacity to make adequate provision for the future has been virtually destroyed the existing tax exemption provisions have become legislation of a most dangerous and disturbing character.

"Thus we have now confronting us a factor of the

greatest importance in our economy of today and which was almost of negligible proportion when exemption was first accorded in 1930. It seems only logical to here stress the fact that when an entirely new situation of serious magnitude develops within the national economy then previous conceptions and previously granted exemptions and privileges should be revised and modernized to meet the present requirements of existing times and existing conditions.

XII

"The attitude of some of the outstanding leaders in the cooperative movement towards its future development and expansion has been made public on many occasions and through innumerable media. For example the Co-operative Consumer published in Saskatoon, Saskatchewan, in the issue of March 1st, 1944, in referring to the report made by the Board of Directors to the delegates and visitors to the 17th Annual Meeting of the Manitoba Co-operative Wholesale Limited held in Winnipeg in February of that year reported in part as follows:-

"Under war conditions it was impossible for the wholesale to foster the development of new oil cooperatives or to extend the lines of goods handled. The main emphasis was therefore placed on assisting existing affiliated associations in every way possible. This was done by means of district meetings sponsored by the Wholesale. The Board recommended that the balance of the 1941 dividends be paid out at this time and that the 1942 and 1943 dividends be retained in the fund. This recommendation was adopted by the delegates.

"The magnitude of the Manitoba Co-operative Wholesale

Limited is indicated by the following figures contained in the above mentioned report.

Total gross sales for the year 1943	
amounted to.....	\$1,730,397.54
and net sales to	\$1,543,625.33

an increase of 14 per cent over 1942 sales although many lines of merchandise were in short supply.

The gross margin of sales amounted	
to	\$ 105,699.93

"There was a total of \$228,490.82 in the Revolving Surplus Fund consisting of dividends for 1943, for 1942 and 60 per cent of the dividends for 1941.

"It was also pointed out that every effort should be made to continue to build up the capital of the Wholesale in preparation for post-war development and expansion.

"In the February issue of the Co-operation and Market News some of the more interesting trends in the cooperative movement in Saskatchewan were set out as follows:-

1. An increasing tendency to plough patronage dividends back into cooperative enterprises to strengthen their position or to so invest the dividends as to make them available for new enterprises or expansion during the post-war period.

2. More planning for post-war expansion particularly in the field of manufacturing, processing and wholesaling.

3. Action on the part of bulk commodity trading associations in purchasing retail grocery and general stores.

4. More diversification of cooperative services both urban and rural.

5. More interest in developing trade between cooperatives on an Inter-Provincial and International basis.

"The Co-operative Consumer in its issue of June 15th

1944 contains the report of the Board of Directors to the 15th Annual Meeting of the Saskatchewan Co-operative Wholesale Society Limited for the fiscal year 1943.

The report pointed out:

1. That by mobilization of buying power cooperators could ensure to themselves the ownership and control of the manufacture and source of supply;

2. That the Board had secured an option on all shares not previously held by the Wholesale in the Hy-Grade Mines and was assisting in the financing of the Arcadia Coal Mines Limited;

3. That the matter of securing a tract of fuel wood had been considered and that the Government had given its assurance that its inspectors would assist the Wholesale in locating a suitable area;

4. That the major portion of the Wholesale requirements of tractor and automobile fuels was produced by Consumers Co-operative Refineries Limited and that it had been suggested that another cooperative refinery be also established;

5. That inventories in the hardware and machinery repair parts were \$100,000. greater than at the beginning of the year and that an increasing supply of these parts was anticipated;

6. That sales in the feed division show an increase of approximately 140 per cent over the previous year;

7. That steady progress had been shown during the past year in the ~~grocery~~ department and that a substantial increase had been made in sales with indications that this phase of the Wholesale development would prove to be one of the major activities of the organization in

the future;

8. That the Wholesale had acted as agent for the distribution of the products of Prefabricated Buildings Limited and had been appointed sole distributors for that concern in the Province of Saskatchewan;

9. That during the past year the Wholesale had participated in the purchase of a shingle mill on Vancouver Island;

10. That there had been a rapid increase in the number of cooperative retail stores in Saskatchewan and that an associate agreement had been prepared whereby new cooperative retail stores might secure from the Wholesale protection and guidance as well as Wholesale services;

11. That the Saskatchewan Legislature at its last session had among other things given to the Wholesale authority to operate mines and refineries;

12. That Provincial Wholesales would be the distributors of cooperative farm machinery with Canadian Cooperative Implements Limited undertaking the purchasing and manufacturing where considered advisable;

13. That the Wholesale was a member of The Co-operative Credit Society and had made use of its services and that the Credit Society provided a checking service for its member organizations;

14. That sales had increased from \$501,445. in 1937 to \$4,456,879.18 in 1943;

15. That the Wholesale depends almost entirely on the successful operation and expansion of the retail;

16. That sales had reached an all-time high of \$4,455,879. an increase of \$704,173. over the previous year;

That earnings for the year were.....\$ 112,799.14
That current assets amounted to.....\$1,083,079.00
With total assets at\$1,349,358.00
That total liabilities were.....\$ 526,666.00
That net worth amounted to.....\$ 822,692.00

"The trend towards development and enlargement to monopolistic size by means of merger, purchase, absorption and amalgamation has also been clearly evidenced in many quarters. A striking example of this is the merger reported in the last mentioned issue of The Co-operative Consumer of Consumers Co-operative Refineries Limited with The Saskatchewan Co-operative Wholesale Society Limited by virtue of which the Wholesale absorbed the Refineries concern. The Wholesale had been incorporated in 1928 and the Refineries in 1934. The merger was followed by the incorporation under a Special Act of the Saskatchewan Legislature in 1944 of Saskatchewan Federated Co-operatives Limited which took over the merger above mentioned.

"Whether Saskatchewan Federated Co-operatives Limited or whether any other cooperative is or is not a true co-operative is perhaps beside the point but the fact is that it engages tax free, openly, vigorously and to an unlimited extent in direct competition with taxed competitors and presents a forceful example of the class privileges and tax inequity created by the existing law.

"One would be inclined to wonder however how a concern could be engaged as a single venture in acquiring ownership and control of manufacture and supply, acquiring, owning and operating mines, in establishing and operating refineries, shingle mills and wood tracts; in acting as sole distributors in a Province of a manufacturer's product and

also engage in many other activities and still remain a cooperative within the four corners of existing tax legislation and be free of income and excess profits taxes if the Act as it stands today is truly and properly applied.

"Similarly one is inclined to wonder how a business of such magnitude and ramifications could remain tax free and how its members too could remain tax free with respect to dividends, savings or whatever one may wish to call the monies turned over to them by the cooperative or in just what position those dividends or savings stand upon payment or distribution.

"Let us assume that one member buys nothing from the cooperative except oil and the cooperative in its year's operations has a loss on its sale of oil. Another member buys nothing direct from the cooperative except feed and the cooperative in its year's operations has a profit on its sale of feed. The cooperative on its year's operations shows a surplus arising out of its operations and then pays a dividend or makes a distribution to its members including the two members above mentioned. The question then arises 'What has the member first above mentioned received'. It certainly could not be conceived in the light of a 'rebate' to him in the form of 'savings' arising out of his or the cooperative's oil transactions. Obviously such a payment or distribution can come to him only as part of the cooperative's profit or gain measured on the relationship of aggregate costs to aggregate receipts and is in fact a dividend paid out of profits. Such being the case the cooperative is not a cooperative within the meaning and intent of The Income Tax Act and The Excess Profits Tax Act and should be subject to tax.

XIII.

"Again may we reiterate that the full expression of 'Canadian Opportunity' can be had only in free competition. So long as this equality of opportunity prevails the nation will grow in strength and power and influence. The denial of this opportunity to the many means the ultimate creation of monopolies and monopolistic enterprises. In order therefore to preserve without sentimentality the very foundations of Canada itself it is essential that efficient individual enterprise be preserved and that the opportunity for efficient and individual enterprise to develop and function be likewise preserved.

"Equality of opportunity implies equity in all things and equality in sacrifice. Every commercial enterprise must have the equal right to exist within a free economy. Equal obligations must go hand in hand with equal freedoms and equal opportunity. In wartime payment of taxes to the state is a patriotic duty. In peacetime taxation becomes again an economic and social problem. Then our whole national progress and development will be governed by the wisdom or folly of taxation policies but in wartime or in peacetime payment of taxes by business and individuals as nearly as possible in proportion to their respective ability to pay is an economic and national necessity. There are two ways of transforming a free enterprise economy into a state-owned monopolistic or socialistic economy. One is the method advocated by some political forces, namely the assumption of the state by legislative action and perhaps with confiscation of the ownership and control of the economic resources of

the country. The other way in which this same identical result can be achieved is by taxation. There are two branches of this latter method either one or both of which can be used effectively to achieve the desired end. One is such excessive taxation as to destroy either in an individual or group all incentive to individual economic effort and progress. The other is such discrimination in taxation either as between individuals, groups, classes, or combinations of capital as will in due time direct or force all business and industry either into the arms of the state or into existing tax exempt forms of carrying on business in Canada.

"The growth of consumer cooperatives has received considerable impetus during the past three or four years. There are several reasons, all inequitable and all a denial of equality of opportunity and rights, that can be ascribed for this.

"1st. Governmental encouragement and financial assistance from both Federal and Provincial Treasuries.

"2nd. Help and financial assistance from the resources or reserves of early established producer cooperatives accumulated through the years as a result of tax exemption.

"3rd. Tax exemption of distributive or consumer cooperatives while competitive private enterprises have been severely taxed.

"4th. The inclusion in the distributive or consumer cooperative's operations of businesses and industries frequently right from the raw product on through each processing and distributive movement until the finished article reaches the ultimate consumer's hands and with each and every movement tax free.

"XIV.

Ninety-five per cent or more of the customers of the wholesale grocers comprising this Association are what are known as 'independent merchants' and in consequence every wholesale grocer in Canada is vitally concerned in the growth of a system of distribution that enjoys as it does now special tax-exempt privileges and which may if these privileges are permitted to continue have the effect of lessening the volume and ultimately destroying the business of all existing taxable wholesale grocery concerns. The same applies to the thousands of independent retailers transacting business in Canada today. Such lessening of volume and ultimate destruction is a dire threat not only to all those thousands of individuals who have their savings invested in the wholesale and the retail stores but also to those many thousands of employees of wholesalers and retailers all across Canada who are dependent on them for the livelihood of themselves and their families. This is a matter of grave national import when post-war conditions and rehabilitation arise for consideration. The Government and we as a people will shortly be confronted with the problem of having to absorb into our economic structure a multitude of men and women now serving in the armed forces, overseas, at home, on the seas and in the air and of providing means of employment and subsistence for the vast number of men and women now temporarily employed as a wartime service in our hugely expanded war production and manufacturing industry and whose services will not be required for normal peacetime production. If to this is added a mass of those now employed in the wholesale and retail trade the rehabilitation problem becomes just that

much more accentuated.

"There are many who contend that the farm is the backbone of the country. Others contend that industry, and by that is meant the manufacturing industry, is the foundation upon which national growth and national prosperity depends. To many the answer to the rehabilitation problem seems to be 'Establish them in the factories and on the farm'. It is both elementary and obvious that it will be impossible for the manufacturing industry to employ these hundreds of thousands in the production of peacetime goods or for the farms to absorb them. Each will no doubt be able to play its part but many of those now in factory employ and of those who return to civil life will have to find employment elsewhere. Two British Economists, Allan G.B. Fisher and Colin Clark, have demonstrated by extensive detailed historical analysis that:

- "1. A comparatively primitive economy has a large proportion of its people engaged in farming.
- "2. As that economy develops more and more people become employed in the manufacturing industry.
- "3. In the most advanced economy there is a rapid continuous increase in the proportion of people engaged in what is described for lack of a better term as the 'Service Industries', namely the wholesale trade, the retail trade, transportation and communication, office workers, white collar workers, hotel keepers, domestic servants, teachers, bankers, brokers, the learned professions and a host of others of unlimited scope and number.
- "4. Of all countries in the world those with the highest concentration of people in the Service

Industries are possessed of the highest standard of living, namely Great Britain, the United States, Canada, New Zealand and Australia. Any economic or other trend of development which endangers the great mass of citizens comprising the Services Industries or any substantial group, class or division of them in their capacity to earn their livelihood or remain in business holds little promise of anything but economic disruption and disaster.

"Consequently any form of taxation possessed of a tendency to concentrate any of the Services Industries in the hands of a few or to place any group or class or any type of Service Industry in a preferred tax position with relation to the others and so ultimately drive the others out of business and employment is fraught with national peril. We cannot be too emphatic about this. It is not only a factor but a highly important and major factor when freedom from taxation by way of special privileges raises its ugly head.

"One further problem calls for some attention. Many of the men and women now in the services will return to civilian life possessed of a substantial sum to assist them in their rehabilitation. Those of them who look forward to establishing a little business of their own are legion. That is the hope which helps them bear the cross of military sacrifice and gives to them a vista of contentment and security awaiting them on their return. What their reaction may be if upon their return they find themselves confronted by tax free competitors while they themselves are taxed presents a problem which no one may ignore.

"XV.

"As early as 1793 the Friendly Societies which then flourished in England were granted certain statutory tax relief based on the theory that they were performing a public service and assisting in alleviating the public burden. As time went on such relief was progressively extended including income tax relief. The Cooperative Societies in their early original simple conception fell in ~~beh~~ behind the Friendly Societies, marched along behind them and thus secured and long continued to enjoy exemption from taxation.

"There too with changing times and changing conditions the Cooperative Societies steadily extended and enlarged their functions, assuming as the years went by an ever increasing magnitude and complexity far removed from their original simple form. Developing as they ultimately did into great business organizations engaged in virtually every type of business and merchandising a demand arose for the removal of their tax exemption privileges resulting in the creation at different times of three Commissions of Enquiry.

"While Canada and the United Kingdom do not offer a perfect parallel by reason of the difference in their taxation systems the difference lies in the method of application of the tax and not in basic principle. For that reason the deliberations of the United Kingdom Royal Commission of 1919-20 and of the Chancellor of the Exchequers Special Committee of 1933 merit thoughtful consideration and constitute a guide of singular force and value.

"The findings of both Committees were almost identical and in effect constituted a recommendation to put co-operatives in the same position as an ordinary trading company.

"The similarity of the conditions then existing in the United Kingdom and those existing in Canada today is clearly evidenced by the specific observations made by two of the Commissioners with respect to certain established facts, namely

(a) the magnitude which the cooperative movement had assumed

(b) the existing high taxation, and

(c) the advantage possessed by tax exempt cooperatives over the ordinary trader

and which they expressed in the form of a finding that 'means should be devised for taxing cooperatives in view of the very large trade carried on by them and the high rate of tax which gave them an advantage over the ordinary trader'.

"It is also worthy of note that the seven Commissioners who dissented and supported the principle of exempting the English cooperatives from taxation nevertheless in effect supported in principle the contention now being put forth in Canada that cooperatives in Canada should be subject to tax. The remarks of such Commissioners in this connection were as follows:- 'If there were in the United Kingdom as there is in the United States of America a corporation tax levied specially on corporations as such it would no doubt be proper that a cooperative society should as a separate legal entity be made liable to that tax'.

"As a result of the findings and recommendations of the two Commissions above referred to Parliament rescinded the tax exemption privileges which had been accorded to cooperatives in the United Kingdom. The arguments used in seeking to refute that rescission were the same identi-

cal arguments that are being used in Canada now and there seems to be no reason for giving to those arguments in Canada any more weight than was accorded to them by the aforementioned Commissions and by the English Parliament.

XVI.

"In conclusion we reiterate that we do not quarrel with the cooperative movement as such and that we are prepared to meet that type of competition on fair and even grounds. But we do stress the fact that

- (a) tax free cooperative competition of enormous volume and scope,
- (b) existing fantastic taxation rates paid by competing businesses, and
- (c) accumulation through tax exemption of mighty reserves denied to others

make impossible even a semblance of fair and even competition and must inevitably lead by slow and steady process to the absorption by the one of the other.

"It is against such inequity that we protest and ask that sec. 4 (p) of the Income Tax Act and sec. 7 (a) of the Excess Profits Tax Act in so far as it refers to sec. 4 (p) of the Income Tax Act be repealed and that said Acts be each otherwise amended in such manner that equality of opportunity and equitable taxation be again restored in order that competitive business may meet again on the same and equal terms.

"All of which is respectfully submitted.

Canadian Wholesale Grocers Association."

Document filed with brief:

Table 'A', Department of Agriculture (Economics Branch)
Publications
Table of Figures Relating only to Farmers'

Cooperative Business and Shewing Growth
Between the Years 1938, 1942 and 1943."

MR. PARKER: There is one thing I would like to have my learned friend comment upon. I would refer him to page 17. Will you explain, Mr. Evans, how the existing situation which you describe, if the cooperatives continue to grow and expand, will make for unemployment? I suggest that it takes as many men to carry on a grocery business in the country whether operated by cooperatives or by others.

MR. EVANS: I would not be inclined to think that. Possibly in our economy there may be more retail concerns than are necessary to conduct the volume of business that is carried on and these could be reduced considerably by bringing them into larger units, but that would conduce to the increase of unemployment. In other words, it takes work away from people presently engaged in it.

MR. PARKER: Perhaps we have too many grocery stores for the good of the national economy.

MR. EVANS: We may, but not too many for the men who work in them.

MR. PARKER: One thing more. On pages four and five you give two examples. Take the first one on page four. You give standard profit, total volume of sales, and net earnings. I take it that in arriving at these net earnings the usual depreciation rate allowed has been taken into account?

MR. EVANS: Yes.

MR. PARKER: Is it not considered that these are generous and indirectly the private companies are building up a species of reserve?

MR. EVANS: You would not like me to commit myself?

MR. PARKER: You have committed yourself by coming here with figures.

MR. EVANS: I could not say as to that.

MR. PARKER: It has been suggested that it is so.

MR. EVANS: Some such depreciation allowances are high but I have not found it in any of the businesses I am associated with.

MR. PARKER: At the bottom of the page you have not deducted what you mention later on, and that is the amount of refunds, and on the next page you set forth the amount they paid in the one case and held back in the other. You realize that even private companies keep a good deal of it and today it is common knowledge that a good deal is held back.

MR. EVANS: Those who kept it back --

MR. PARKER: -- are commencing to wonder whether they were wise. I agree. But the point is that they are holding it back. And is it not also true that the members of co-operatives, to the extent that they do pay out their so-called earnings to their members, in turn pay additional income tax?

MR. EVANS: I would not say that is true in every case.

MR. PARKER: Depending on the bracket they are in?

MR. EVANS: There are cases where the recipient adds it to the income if he has taxable income and pays it. There are other cases where he does not have to.

MR. FRANCIS: Is there an official of the wholesale association who can come and verify the facts? I wish to direct a few questions to him.

MR. EVANS: Tell me what facts.

MR. FRANCIS: They are almost on every page. It would take me some time to examine how effective the brief will be when it is finally checked.

MR. PARKER: How was the brief prepared?

MR. EVANS: The Wholesale Grocers Association has a substantial committee elected by its members from among themselves and spread out regionally. The central committee is available for immediate matters and suggestions. We asked for suggestions from various members of the committee as to what should be incorporated in the brief, and draft briefs were sent to them for suggestion and amendment and returned to me with their suggested amendment for presentation to the central committee.

MR. FRANCIS: Perhaps counsel can provide the information, but I submit that where a great many facts are presented it is more satisfactory to have them verified in the usual way.

THE CHAIRMAN: What facts are there that are not contained in the documents that are available to us?

MR. FRANCIS: Take for example page four where examples A and B are given, and just below the first tabulation this sentence appears: "The foregoing figures disclose that in the case of one company its percentage of profit before taxation based upon aggregate volume of sales was approximately a meagre 1.6 per cent and that in the case of the other company its percentage of profit before taxation based upon aggregate volume of sales was 3.52 per cent." I would like to ask what amount of capital was involved in the venture.

MR. EVANS: I am not in a position to give that information. It does not seem to affect the matter. The brief

simply shows the percentage of turnover, the narrow margin of turnover. It has no relation to profits.

THE CHAIRMAN: That is just a deduction from the figures shown; that is all.

MR. EVANS: He is trying to find what the profits were.

MR. FRANCIS: That is very relevant. If the profits were 10, 15, 20 per cent, that is relevant to the inquiry.

THE CHAIRMAN: It would not be relevant to the example given.

MR. FRANCIS: But it is relevant in a general sense. Mr. Elliott appreciates the point more than I do.

MR. ELLIOTT: I do not see the point, Mr. Francis.

MR. EVANS: That percentage might show a loss.

THE CHAIRMAN: Quite so.

MR. FRANCIS: I proceed to page five. At the top of the page in the second sentence you say: "While the amount payable by each shareholder varies depending upon the income tax bracket in which each falls it can be reasonably assumed that the average would be not less than 50 per cent thereof or a total of \$17,746.11." The point I want to raise is this. Is it assumed that the shareholders of the corporations that are represented by this association are in receipt of incomes sufficiently high so that half of the dividends they would get would go to the national revenue in income taxes?

THE CHAIRMAN: I did not read it that way. It is just an assumption that they would probably come to that amount. In any case it is only a deduction.

MR. FRANCIS: But it involves the implication that shareholders of companies have incomes sufficiently high -- and we can easily figure that out -- that half goes to

the national revenue.

MR. EVANS: The intention there is not that the shareholders of one member of this association might average 50 per cent but that all the members would probably aggregate 50 per cent. It would be astonishing if they did not aggregate that figure.

MR. FRANCIS: On page six in the last sentence of the last paragraph but one you say: "Not one of these four movements contributes a dollar to the income or excess profits tax revenue of the Government, both the industry and the individual being scot free and tax clear". I would like to know if the people presenting the brief stand behind that statement.

MR. EVANS: I stand behind it to this extent, that the reference is to the incidence. So far as the suggestion is concerned that the cooperative as such has been taxed, I say it is perfectly true. In so far as the individual or member of the cooperative is taxed, that depends upon whether or not the money comes from a retail distributor.

MR. FRANCIS: A good deal has been said about the province of Saskatchewan. A great many people there are farmers and a great many of these farmers use a large quantity of lumber in making repairs to buildings, erecting fences, putting up granaries for grain and so on, and that lumber that they buy is one of the expenses they have in connection with the marketing of their products and carrying on farming operations. It is true this works in reverse. An individual in the community gets together with other individuals and he and his neighbors buy a carload of lumber. It is quite true that these different communities, desiring to get a good quality of lumber at a reasonable

price, again assemble their orders through a regional organization; and it is quite true that the regional organization then reaches out in order to supply that demand on an orderly basis; and yet again it is quite true that they do make arrangements with saw mills to provide the farmers of Saskatchewan with that lumber. Let us suppose that the individual farmer spent on lumber say \$300. He would pay first of all \$300 to the local cooperative, and it is quite probable, or at least possible, that through the combined savings made in the local, the regional and the manufacturing process, it might cost him \$200. That is, his expense has been actually \$200 and not \$300. Therefore that difference of \$100 is a reduction in cost in his farming expenses and on that \$100 he pays income tax. Consequently I question this statement that "not one of these four movements contributes a dollar to the income or excess profits revenue of the Government, both the industry and the individual being scot free and tax clear."

THE CHAIRMAN: That is argument; I hope it is not a question you are putting to me, Mr. Francis. You are looking at me. I would have to say, as Mr. Carson did at Toronto, "I might give you the wrong answer."

MR. FRANCIS: Could you give me the answer, Mr. Evans?

MR. EVANS: I confess, your explanation is a little confusing to me.

MR. FRANCIS: I will make it again, though I thought it was clear enough.

MR. EVANS: Then I did not follow you successfully.

MR. FRANCIS: I will start again. As you know, from the economy of the province, there are in Saskatchewan a great many small villages and towns; the province is

dotted with several hundreds of these.. The small community centre, say the village, might be called the service station of the community. The people in the surrounding territory use it as a general service station, so to speak. The farmers, under the economy that prevails there, do use a good deal of lumber and that is an expense of carrying on farming operations the same as the twine with which they bind their grain, oil with which they lubricate their tractors, or the gasoline with which they operate the machinery when cutting grain. It is just the same as any of these other items which they employ. It is a true expense and in their income tax return at the end of the year they put in so much for farm expenses, lumber being among them. Now they found that there were two things about the lumber industry that were entirely not satisfactory. They found that the lumber supplied at the local community centre did not always meet their needs as to quality; it was not entirely suitable from that standpoint; and secondly they found that the retail spread, plus the wholesale spread, plus the manufacturing spread were too high. The only way to meet that situation was therefore, they felt, to get together in supplying their lumber needs, and so they formed themselves into local associations and then probably brought in a carload of lumber. The 29 associations in 1928 marshalled their buying power together and that grew from the 29 associations at that time, their savings being so great, that the thing spread. Before there was any question of taxation the people in the neighboring communities said, "We would like to be in on this," and so the 29 increased to 441, those 441 associations representing farmers desiring lumber. The first thing they knew, they were taking

the total output of the mill and the sensible thing then was to buy the mill. And that is what they are doing. The point is that all along the line, if there is a surplus in the milling operations it flows back to the individual farmer on the farm; if there is a margin in the wholesale distribution that flows back to the individual farmer; if there is a surplus on retail distribution that also flows back. So that on the \$300 it may amount to \$100. That \$100 is taxable income in the hands of the farmer and therefore it is not correct to say that the individual is scot free. Is that clear?

MR. ELLIOTT: May I interrupt?

MR. FRANCIS: Certainly, Mr. Elliott. I hope you will explain it better than I can.

MR. ELLIOTT: In the sentence immediately preceding the one Mr. Francis has quoted you use the words "under certain circumstances". Would you be willing, Mr. Evans, to have that phrase "under certain circumstances" transposed to the bottom?

MR. EVANS: I conceive it might happen where they were not tax free. I use the words "under certain circumstances" in another paragraph and perhaps they should not appear there.

MR. FRANCIS: The large wholesaler taken as an example by Mr. Evans deals, as the evidence shows, very largely with these farm supplies like lumber, petroleum products and twine, so that as regards the illustration which my learned friend has taken there would be a large amount of money which would go to the national revenue from the decrease in expenses of carrying on farming in Saskatchewan.

MR. EVANS: I take it that the words in question will

be inserted after the word "being" so that the sentence would read: ".....both the industry and the individual being under certain circumstances scot free and tax clear."

MR. ELLIOTT: I was somewhat curious to know why the Canadian Wholesale Grocers Association was so much interested in lumber and oil.

MR. EVANS: The answer is that it is put there to indicate the magnitude which this movement is assuming.

MR. ELLIOTT: It is not intended to suggest that the business in lumber and oil led the cooperatives to carry groceries as a side line?

MR. EVANS: No. I may say that the lumber and oil businesses are not contributing anything to my retainer.

MR. FRANCIS: At the bottom of page eight this statement appears: "The more extensive this absorption the more the remaining taxable survivors will have to pay until this vicious spiral induces one by one to fall leaving a perfect monopoly in its wake." I would like to know what you mean by "perfect monopoly". Can I have an explanation of that?

MR. EVANS: I do not know the definition.

MR. FRANCIS: We have had trouble with words before, and this question of monopoly is important.

THE CHAIRMAN: That same word came up this morning. It is hard to define.

MR. FRANCIS: The submission is this, Mr. Chairman. It is not a monopoly if it is in the hands of everybody, and a consumers cooperative, theoretically, can extend to everyone.

THE CHAIRMAN: That is pure argument; it is not fact. I thought you were asking Mr. Evans what facts could be substantiated. That sentence, however, is pure argument.

MR. EVANS: It is theory.

MR. FRANCIS: I would like to know on what statistics this sentence is based, that "The more extensive this absorption the more the remaining taxable survivors will have to pay." We do not admit that. Are there any statistics available on which that assumption is based? That is a factual question which I would like to have answered.

MR. PARKER: The only reason I did not ask any questions was that I took it that the brief was intended purely as a submission of argument. If there are statements of fact here that are not verified I have no doubt the Commission will take them for what they are worth-- that is, unverified statements of fact. Expressions of opinion, if not borne out by sworn evidence, will not carry undue weight.

MR. FRANCIS: If a joint stock company operated without profit there would be no income tax.

MR. EVANS: Quite so.

MR. FRANCIS: I am not quite clear as to whether the submission is intended to indicate that, if a cooperative distributes patronage dividends to its members, those patronage dividends should be taxed in the hands of the cooperative.

THE CHAIRMAN: Are you asking me that question?

MR. FRANCIS: No, sir. I am addressing my learned friend through your Lordship.

MR. EVANS: I do not think I am adroit enough to answer that question. It brings us back again to the question, what is profit. That is where the question takes you.

MR. FRANCIS: The illustrations are such that one

would reach the conclusion that the people submitting this brief are asking that patronage dividends be taxed. I want to know whether that is the submission.

MR. EVANS: No. We are only asking that you be put in the same position that we are in.

MR. FRANCIS: If a private business, a joint stock company, makes a patronage rebate to its customers, is that tax free?

MR. EVANS: I never heard of such a thing.

MR. FRANCIS: Would it be tax free?

MR. PARKER: This is not the proper place to be asking such questions. They are not questions of fact based on the brief. However, if counsel wishes to enter into an argument and the Commission desires to hear it, well and good.

MR. FRANCIS: On page eleven, in the third paragraph you say: "By 1939 the corporation tax rate stood at 15 per cent except in the case of consolidated returns which were subject to a 17 per cent rate. By the 1939 war budget the above rates were increased to 18 per cent and 20 per cent respectively, the total amount realized through the medium of income tax being the sum of \$134,446,566. Even at this time the rates had not reached unbearable proportions nor had the cooperative development then assumed a serious magnitude." I want to ask this factual question. I would like to know whether or not the 27 wholesale grocery houses represented by this brief have, in spite of taxes paid during the years from 1940 to 1943, increased their net earnings. Have they done so in spite of taxes?

MR. EVANS: I would not answer that. There is no reference in the brief to anything of that kind.

MR. FRANCIS: "Unbearable" is used.

THE CHAIRMAN: The answer is, "I don't know."

MR. ARNASON: On page fourteen of your brief, paragraph fourteen, you refer to the fact that sales had increased from \$501,445 in 1937 to \$4,456,879.18 in 1943. I just wondered what inference you wanted us to draw from that, and in that connection I would ask this question. I was not quite clear whether you were responsible for or assisted in the preparation of the brief which you have submitted. The question I had in mind was this: Do you know whether, when this brief was considered and was being prepared, those responsible for its preparation had information regarding the increase in retail sales which took place in Saskatchewan from 1937 to 1943? The reason I ask that question is this: The year 1937 was the worst in the history of Saskatchewan. The average yield of wheat per acre was two bushels. It was the low point in the economy of the province and I wondered whether, when you were preparing the brief, you had taken into consideration that the statistics on total retail sales over the period may have shown an increase which might correspond to the increase in the sales of the Saskatchewan Co-operative Wholesale Society; in other words, whether the increase in the wholesale was perhaps a reflection of changing economic conditions.

MR. EVANS: I took that myself out of the issue I have referred to. I am responsible for that particular part of the brief. I anticipated what you had in mind and I was trying to think whether these figures were set out that way in the report or whether there had been a tabulation of a number of years, and I consolidated the two figures.

Unfortunately I did not bring that copy of the publication with me, but I have it in my possession and I shall be glad to file it.

MR. MILLIKEN: I have a question that deals with your table "A" at the back of the brief. I presume you do not know whether the sale of farm products is for the calendar year or the fiscal year?

MR. EVANS: No. What do you mean by the fiscal year -- March 31?

MR. MILLIKEN: In the case of the three western wheat pools their year ends July 31 and I do not know whether these figures are for the year ending July 31 or December 31.

MR. EVANS: The thought never occurred to me.

MR. MILLIKEN: To allay some of the fears of your clients, as well as your own, may I remind you, as Mr. Arnason has already pointed out to you, that 1937 was the greatest crop failure year Western Canada has ever known; and more than that, the price of wheat was not where it is now. Might I suggest to you that the great increase in the volume of sales from 1938 to 1943 was due largely to the fact that 1943 was one of the biggest crop years with a price substantially higher than in 1938. I presume you never took the percentage of crop handled, or the percentage of farm business?

MR. EVANS: No.

MR. MILLIKEN: You took the dollar figures instead of the percentage volume of business.

MR. EVANS: Yes.

MR. THORVALDSON: These are figures, as I understand, for 1938, 1942 and 1943, the year ending December 31.

I think that is in the Government's statement.

MR. MILLIKEN: If that is so, I suggest that the price of the wheat board in 1938 was 80 cents and in 1943, the first half, it was \$1.25, which accounts to a large extent for the increase in dollars, particularly when you add that one was a huge crop and one was small.

MR. ARNASON: I think we are in a somewhat peculiar position in discussing figures the authors of which are listening to us with a great deal of interest. They are here in this room.

THE CHAIRMAN: Are you through, Mr. Milliken?

MR. MILLIKEN: Yes, my Lord.

MR. ELLIOTT: There is just one point. Has the Canadian Wholesale Grocers Association a particular interest in keeping up the number of retail outlets in the country? You suggested that there may be more than we can get along with now.

MR. EVANS: I should think so, yes. But every citizen is interested in seeing as far as possible that we give as much work as we can to every one.

MR. ELLIOTT: On the general basis of presenting unemployment?

MR. EVANS: On the basis of trying to prevent unemployment.

THE CHAIRMAN: That concludes the brief.

The Commission thereupon adjourned to meet on February 17 at 9.30 a.m.

.....

Ottawa, Ontario
Saturday,
February 17, 1945.

The Commission met at 9.30 a.m., Mr. Justice McDougall presiding.

ROGER de BELLEFEUILLE

Secretary, The Catholic
Union of the French Speaking
Farmers of Ontario,
having been duly sworn,
testified as follows.

BY MR. PARKER:

Q. You are about to present a brief on behalf of the Catholic Union of the French-speaking Farmers of Ontario?

A. Yes.

Q. What position do you hold with the organization?

A. Secretary.

Q. How long have you been Secretary? A. Since May, 1944.

Q. Did you prepare this brief yourself? A. With the help of the President and another member of the committee.

Q. How many members are there in the society? A. A little over two thousand.

Q. Have you an executive committee? A. Yes.

Q. Is this an incorporated body? A. Not yet. We are working on our charter now.

Q. Have you a sort of executive committee? A. Yes.

Q. How large is it? A. We have representatives of four regional organizations.

Q. How big is the executive committee? A. Four members.

Q. In addition to these four how many have seen the document? A. Nobody.

Q. Have you submitted it in any way to the two thousand members to know what their ideas are? A. They wrote and asked us to prepare something.

Q. How many wrote to you out of the two thousand? A. Mostly cooperatives that were organized in the region.

Q. But how many out of the two thousand expressed a desire that some such document as this be prepared?

A. The members did not ask us, just the bodies.

Q. What kind of bodies? A. Agricultural cooperatives.

Q. Different societies through the province? A. Yes.

Q. They are organized into societies? A. Yes.

Q. How many different organizations? A. Marketing cooperatives, cheese cooperatives and poultry.

Q. How many different societies are there? A. Four different kinds.

Q. But how many in number -- fifteen or twenty? A. In the region here, about thirty of them.

Q. And you are speaking on behalf of those thirty? A. Yes.

Q. You are in process of organizing these thirty units into one federation? A. Yes.

Q. And the committee of four is the committee in charge of arranging these thirty individual units into a federation? A. Yes.

Q. Perhaps you will read the brief. A. This memorandum was prepared originally in French and translated. The translated French copies will be sent to the Commission as soon as possible.

THE CHAIRMAN: Are you going to put French copies in?

THE WITNESS: Yes, sir. The brief reads as follows:



"The cooperative societies having been requested to voice the opinion of their members on the possible taxation of their revenue surpluses, The Union Catholique des Cultivateurs franco ontariens submits for your kind consideration the following brief in which it expresses its opposition to any Act which would compel cooperative societies to pay a profit tax to the federal treasury.

"Our arguments in support of the exemption from taxes on revenue of cooperatives are grouped under the three following headings:

1. Cooperatives are institutions necessary to economic atability and social peace.
2. The taxation of revenue surpluses of cooperatives is contrary to cooperative principles and ideals.
3. The taxation of revenue surpluses of cooperatives is inconsistent with the cooperative organization.

I -- Cooperatives are institutions necessary
to economic stability and social peace

Unfortunately, we must admit that revolutionary ideas have deeply fermented among the masses during the last fifteen years. On the other hand, during that same period well directed movements of social education have created currents of a healthful activity which are today the most valuable asset of our hectic age. While others were preaching hatred, revolt, racial bias or other panaceas that inevitably lead to war, the cooperative movement carried on its work of peace, inspiring the creation of social and economic organizations actuated by the principles of justice and equity.

"To provide against the dangerous repercussions which subversive doctrines will give rise to, on the occasion of the post-war problems, the enlightened working

class, instead of allowing itself to be dazzled by glittering utopian dreams of a dangerous socialism is preparing to face the after effects of the post war period by entrenching itself behind the strong walls of cooperation.

Furthermore, we feel that society would be losing much more than it would gain if any attempt was made to hamper the development of an institution recognized as a bulwark against socialism and communism which have become an alarming threat to the welfare of the masses.

"The advocates and organizers of the cooperative movement deplore the present campaign and undertake to offer in defence the honest principles of the cooperative system and the local and sound methods of cooperative transactions."

I might add a few words here. I have some photographs comparing methods, agricultural ways and prices in the United States and Denmark, which is a cooperative country. Here are a few photographs.

BY MR. PARKER:

Q. Tell us what you are about to read from.

A. This is the Co-operative Denmark. It is a translation.

Q. By whom is it put out? A. By Soren K. Ostergaard, published in the Christian Century of Chicago.

Q. What is the Christian Century? A. I don't know. I suppose it is a publication of some kind.

Q. You are giving the figures quoted in that publication? A. Yes. I am translating: "Of the dollars spent in the United States by the consumer for ten different sorts of foodstuffs 38.5 cents went to agriculture and 61.5 went to distributors and processors, this after the A.A.A. had helped the farmer. If we take the official corresponding figures for Denmark, from the statistics

published in 1934, of the dollar spent for the same food-stuffs by the Danish consumer in 1933, 63.4 went to the farmer and 36.6 to the distributor and processor, about the reverse in the United States." The brief continues:

"II -- The taxation of revenue surpluses of co-operatives is contrary to cooperative principles and ideals."

"The cooperative organization is not merely a method of transaction but also and mainly a factor of improvement of the individual and the profession. Moreover, it is an effective connecting link between individuals who have common purposes and common needs and between the various professional bodies which contribute to the economic and social life of the nation.

"For that reason, it can be rightly said that an agricultural cooperative society is not essentially in itself an industrial or commercial undertaking but rather a professional agricultural service or activity without any lucrative purpose properly speaking. Actually the members of a cooperative are at the same time owners and operators of the undertaking due to its democratic character. They are also the customers of the same undertaking. The members who join the cooperative society do not contribute their capital and efforts to make profits on their transactions but to obtain better terms on their purchases and sales in production, in transportation or in any other activity. Moreover, it is generally admitted that the selling price in any business transaction must be higher than cost, and this, to cover risks and all operation expenses. Hence, surpluses are merely amounts paid in excess by the purchaser or producer on the face value of his merchandise or his own produce. The surpluses realized by cooperative societies are the property of the

individual members as excess amounts voluntarily disbursed over the cost price. Surpluses collected by cooperative societies are necessary for administration, appropriation, repairs and contingency reserves. Finally, the surpluses realized by cooperative societies are made according to a principle of cooperation which stipulated that cooperatives must abstain from unjustified competition.

"It can also be rightly said that an agricultural cooperative society is not essentially a commercial enterprise. It is rather a professional activity, the immediate aims of which are the protection and the improvement of the agricultural profession by raising the standard of living of every farmer. Hence, the financial advantages are to benefit the individual and not the enterprise. To illustrate this assertion, let us use an example: There are business firms which give discounts of 2 per cent, of 5 per cent and sometimes more, to customers who honor their invoices during a specified time or to those who pay cash. Is this a profit and is the government taxing these refunds voluntarily given by the business firms? Certainly not. Why then should it be different for the same refunds of 2 per cent, 5 per cent or more periodically given by cooperatives on the business transactions of their members. It would be illogical and unjust to tax these patronage refunds.

III -- The taxation of revenue surpluses of Cooperatives is inconsistent with the cooperative organization

"The above mentioned presentation of the cooperative system proves that the objective of the cooperative enterprise is the improvement of the personal and professional living conditions of the individual, and not the realization of profits. The organization of the cooperative



enterprise is governed by the following conditions:
firstly, the invested capital per member in a cooperative society is reduced to a minimum.

"Secondly, the capital investment is paid a reasonable interest, and no more. Dividends on capital are never mentioned in cooperation. These facts imply that a cooperative is not an organization based on profit, but rather an undertaking operated solely for the service of the human being. Cooperation considers capital simply as a servant having the right to a reasonable salary. In this regard it could be observed that the remuneration to money-capital is not given to the money as such, but as the reward for the initiative of the individual who has acquired it by his daily efforts in his profession. It is therefore the owner himself who is remunerated and not the capital itself.

"Thirdly, cooperative societies organize a reserve fund. This reserve fund is the personal property of each and every member and its role is to prevent difficulties and not exploitation. It does not practically bring a profit to the cooperative, it constitutes a protection fund against contingencies.

"Fourthly, when the surpluses exceed the necessary amount for the reserve fund, the members receive a bonus called 'refund'. The refunds distributed by the cooperatives to their members help to raise the net profit realized by them in their own enterprises. If it happens that the profit of the member raises his income high enough to bring it within the margin of taxation, the law should apply in this case to the individual not as member of cooperative, but as to a person in his own personal affair or enterprise. Otherwise, by the use of this

indirect method, we would be compelling the lowest income groups to pay an income tax which they would not pay under normal circumstances.

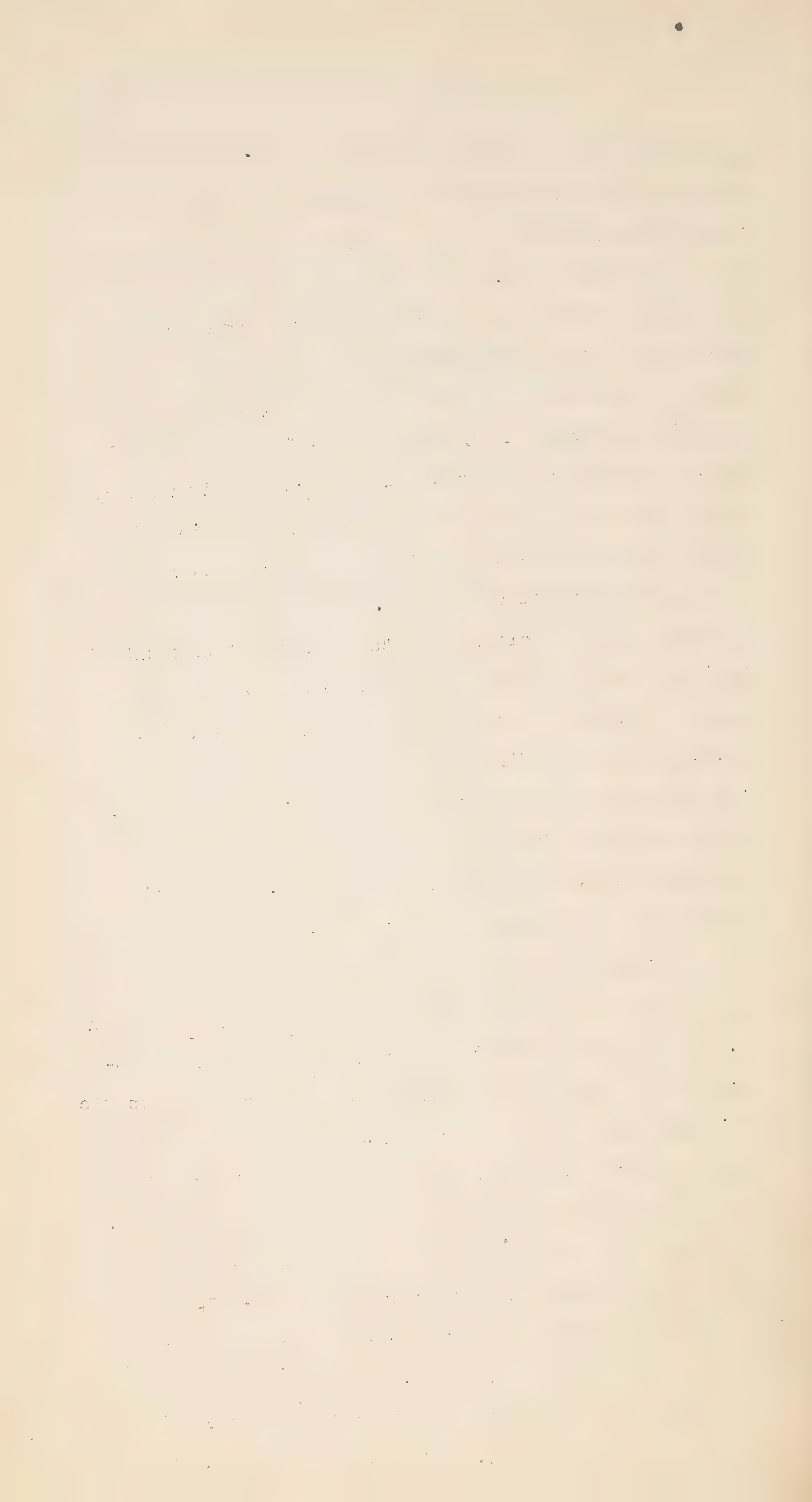
"Let us have an example: Would it be reasonable and just for the government to levy a tax on the cheese bonus before giving it to the farmer, and this, through fear of inability to bring all those who benefit of such a subsidy, within range of taxation. To act in this manner, would be adverse to the most elementary economic and social reasoning. The taxation of cooperatives would be equally unreasonable and unjust.

"The Union Catholique des Cultivateurs franco ontariens submits to your kind consideration the above outlined arguments with the confidence that they will receive serious attention. We sincerely hope that the above arguments will help the judgment of the honourable members of the Royal Commission investigating the taxation of cooperatives, in favour of the tax exemption on the surpluses of agricultural cooperatives."

BY MR. PARKER:

Q. There are just one or two questions I have to ask you. Will you tell us what you mean by stating that co-operatives are institutions that are necessary to economic stability? Why are they necessary, and why do they make for stability? A. Well, they certainly envisage the whole field of economy and they are for all individuals. They are institutions that operate for all individuals and not only for a certain number of individuals, and being for everybody they surely help everyone financially, socially and nationally.

Q. You think there cannot be economic stability without cooperatives? A. Not necessarily that, but



the cooperatives certainly can help.

Q. I can understand that, but the way you put it it looks as though, without cooperatives, there could not be stability. You do not mean that? A. No, not necessarily.

Q. On page two you state in the second line: "While others were preaching hatred, revolt, racial bias or other panaceas that inevitably lead to war, the cooperative movement carried on its work of peace", etc. Will you tell us who were preaching all that? A. Well, there are certain "isms".

Q. Who are the people who, you say, were preaching hatred, revolt and racial bias? I would like to know who the people were, where they were preaching that, and when. A. You know how it is.

Q. No, I do not know how it is. I want to know.
A. Take in Germany; isn't that what happened there?

Q. I don't know; I wasn't there. A. No, you weren't there.

Q. Is that what you are referring to? A. Certainly, those people.

Q. Are you referring to people in other parts of the world or in Canada? A. There are some in Canada.

Q. Who are they? I don't want them to be named, but what groups are you referring to and in what part of the country were those groups preaching all that?

A. The communists.

Q. Are those the people to whom you are referring?
A. Sure; why not?

Q. At any rate that is what you mean by that?
A. Certainly.

Q. In the next paragraph you say: "To provide

against the dangerous repercussions which subversive doctrines will give rise to." What subversive doctrines are you referring to? A. Well, Communism is certainly one.

Q. Is that all you mean? A. I don't know about socialism, but it has that tendency maybe.

Q. All I want to know is what you mean by this expression and what doctrines you are referring to.

A. Communism is one of them and also socialism.

Q. Communism and socialism are subversive doctrines?

A. Well, they are tending that way.

Q. At the end of the paragraph you say: "We feel that society would be losing much more than it would gain if any attempt were made to hamper the development of an institution recognized as a bulwark against socialism and communism, which have become an alarming threat to the welfare of the masses." What is the institution that you say is the bulwark against all that? A. Cooperation.

Q. That is what you mean, that the cooperative is a bulwark against socialism and communism? A. It is certainly one of them.

Q. Is that what you mean? A. Yes.

Q. Is it the only bulwark? A. No. There may be others, but of course it is one.

Q. You don't know of any others? A. There might be some.

Q. But you have not seen any? A. No, not yet.

Q. You say: "The advocates and organizers of the cooperative movement deplore the present campaign." What campaign is going on that you deplore, and who is conducting it? A. The campaign for the taxation of cooperatives.

Q. That is the campaign you have in mind? A. Yes.

Q. Where is there a campaign abroad to tax cooperatives and who is conducting it? A. There has been pressure.

Q. Where and by whom, and how do you know? Where does the pressure manifest itself?

THE CHAIRMAN: I should not like the witness to say it is this Commission.

MR. PARKER: I think it is my duty to protect the witness against that.

THE WITNESS: If there was no pressure against cooperatives there would be no Commission sitting for this purpose.

BY MR. PARKER:

Q. You speak about a campaign that is going on. Can you tell me who is carrying it on? A. I suppose it is the financial organization.

Q. Do you know about it or are you drawing on your imagination? A. You have to use your imagination.

Q. Is that what you have done here? A. Yes.

Q. In this brief you say that these cooperative societies have no "lucrative purpose". Do you mean to tell me that the cooperative societies, at their origin, were organized without any idea of a money advantage, without any idea of bettering themselves financially? You do not mean that? I realize that this is a translation from your language into ours, but you are apparently saying that there is no money motive or, as you put it, no lucrative purpose. A. In the sense of profit. It would not be considered profit. But "lucrative" has a wider sense than just profit. Perhaps the word is too strong.

Q. I suppose the idea of the cooperative movement is to get more money for the individual? A. It is first

of all service.

Q. To get more for his produce and to save money?

A. Yes.

Q. Isn't that the primary motive? A. It is not the primary but the secondary purpose.

Q. And what is the primary purpose? A. The primary purpose is service.

Q. What do you mean by service? A. To help the individual.

Q. To help him financially so that he will get more for his produce and buy more cheaply the things he requires. Isn't that the service you mean? A. Sure, but not the money; it is the service. The main thing is the service and the secondary one is the money.

Q. Take the second paragraph on page three. You say: "It can also be rightly said that an agricultural co-operative society is not essentially a commercial enterprise." If a man is growing wheat or dairy products and tries to sell them in the best market he can get and at the best price obtainable, if that is not essentially a commercial enterprise what is it? A. It is a professional activity.

Q. And what in your opinion is the difference between professional activity and commercial enterprise?

A. Well, the farmer is a professional man.

Q. Well, I suppose anyone else might be professional in that sense. Another man might be a professional bookkeeper? A. He belongs to a class of people who are doing the same work. It is like a doctor of medicine. We have a certain number of doctors.

Q. You admit the doctor practises primarily to make a living? A. He works for his profession and his pro-

fession gives him a living incidentally.

Q. Would you say the same about lawyers? A. Absolutely.

Q. That is the first compliment of the kind I have heard them paid.

BY MR. ARNASON:

Q. Following up the line of questioning put to you by Mr. Parker, when you referred to the cooperative movement as a sort of bulwark against certain isms did you have in mind that if the people tried to meet certain of their needs through cooperative effort they would be less inclined to depend upon the state or upon aid by the state? A. They would be less inclined -- would you repeat that?

Q. I was wondering whether what you had in mind was that if people tried to meet some of their needs through cooperative action that would make them less inclined to depend upon the state or the government for assistance. Is that one of the things you had in mind? A. Absolutely.

Q. On page four you say that capital investment is paid a reasonable interest and no more, and then you go on to say that capital, simply as a servant, has the right to "a reasonable salary." Is it your view that the man who invests share capital in a cooperative receives interest on it and is to some extent in the same position as a man who lends money to an organization, something like the man who purchases the bonds of an institution? A. Yes. No matter where the money comes from, the member or non-member money gets exactly the same interest, a reasonable interest.

BY MR. THORVALDSON:

Q. How long have you been in the cooperative movement? You have been in a number of years? A. I have been Secretary of this union close to a year now, but I had been studying cooperation before that.

Q. You are well acquainted with cooperative principles? A. Fairly well.

Q. And you believe in the cooperative principles you have enunciated in your brief? A. Absolutely.

Q. And you believe that if these principles are followed by the cooperatives then the cooperatives should be exempt from income tax? A. Absolutely.

Q. You believe that? A. Yes.

Q. Will you tell me what your belief is. I agree with you that you have enunciated a number of official cooperative principles in your brief. Do you believe that if all or one of the principles you have enunciated were broken by a cooperative enterprise that cooperative enterprise should still receive tax exemption? A. It depends. You have to make a distinction on this. Could you illustrate that a little more.

Q. You have enunciated what I consider the fundamental principles of cooperative effort. A. Do you mean, if a cooperative does business with non-members? Is that what you mean?

Q. Yes. A. Well, I would say that they should pay taxes on the benefits or profits that they make if the cooperative does not give back the surpluses which belong to these gentlemen if they are members of the cooperative.

Q. Then you believe they ought to pay some taxes on

that? A. Yes.

Q. Suppose instead of paying patronage dividends the cooperative continues to pile up large surpluses. Do you think then the cooperative ought to have tax exemption?

A. I would not commit myself on that.

Q. You believe that cooperatives should have exemption because they are cooperatives? A. Yes.

Q. Therefore, if cooperatives break all cooperative principles and start to do business as any other corporation does, do you believe that they should be tax exempt?

A. If they are not cooperatives they should be taxed even if they have the name cooperative.

Q. You believe that capital whether invested in a cooperative or a private company is entitled to some salary? A. Absolutely.

Q. On page three you say there are certain business firms which give discounts of 2 per cent, 5 per cent and sometimes more to customers who honor their invoices during a specified time. Do they not get 2 per cent or 5 per cent or more when they buy certain quantities or pay their bills in time? A. Up to this time the cooperatives have never been taxed.

Q. When the cooperative buys the same as any other firm is it not entitled to these discounts the same as any other firm? A. I suppose it is.

Q. You will find it is so. In the first place, the cooperatives get the same consideration from firms in their buying and what you refer to in the second place is different, something over and above that altogether.

Isn't that so? A. A cooperative when it deals with its members does not give a 2 per cent or 5 per cent discount or more on the articles that the member buys. It

only remits or gives back to the member the benefits at the end of the fiscal year.

Q. I understand that; but isn't that something entirely different from the comparison you make? You compare the discount in the case of the ordinary business firm with the dividend or rebate made to the member?

A. The private firm will give 2 per cent or 5 per cent after thirty or sixty days; the cooperative gives 5 per cent or 10 per cent at the end of the year.

Q. But you say you receive that same discount in buying and this is something over and above that altogether. Whatever you give the member is something over and above the discount received from the firm from which the co-operatives buy? Your rebate is something entirely different, something over and above the discount you get? On page four you speak of reserves. You say that co-operative societies organized a reserve fund. "This reserve fund is the personal property of each and every member and its role is to prevent difficulties, and not exploitation. It does not practically bring a profit to the cooperative. It constitutes a protection fund against contingencies." Are we to understand that this reserve fund is only justified to the extent that it is provision against a contingency, or is the reserve justified for any other reason? A. I said previously that the refund exists for the purpose of paying all expenses of administration, repairs and all other things that might crop up. We don't know all these things, just the same as an independent stock company does not know all that is going to happen. It is no different in the cooperative.

Q. I was wondering what the significance of that statement is, that it constitutes a fund against contingencies.

Is that the sole purpose of the reserve, to constitute a fund against contingencies? A. Absolutely.

.....

P. H. CASSELMAN,

Associate Director,
The Social Centre of the
University of Ottawa,
having been duly sworn,
testified as follows:

BY MR. PARKER:

Q. You are Mr. Casselman? A. Yes.

Q. You sign as Associate Director? Director of what?

A. The Social Centre.

Q. What is the Social Centre? A. The Extension Division of the School of Political Science as I will describe in my brief.

Q. Is this Social Centre operated by the University authorities? A. That is right.

Q. Who is the Chief Director? A. There is an Acting Director, Father Fortier, and I am Associate Director.

Q. What are your duties as Associate Director?

A. We have not really a set-up.

Q. You have no duties. If you have duties, tell us what they are. A. They include the teaching of co-operation, delivering lectures, preparing manuscripts and pamphlets and defending cooperation where it is possible and recommendable.

Q. Who gives you these instructions? A. He gives me the instructions and I do that myself. The University of Ottawa is interested in cooperation.

Q. We have your official position. You are Associate Director and this is what you do. Who is your superior?

A. Father Fortier, the Acting Director.

Q. And over him is there any superior? A. The University of Ottawa would be above him.

Q. They have supervisory control over all his activities and yours? A. Yes.

Q. I want to know if the University authorities instructed you or your director to appear before this Commission? A. Definitely.

Q. They instructed you to appear before the Commission? A. The impetus did not come from them originally.

Q. Did you receive instruction to prepare a brief and appear before this Commission? A. I did ultimately.

Q. What do you mean? A. The move came from myself but they instructed me.

Q. Did you take the initiative and request permission to present a brief before the Commission? A. I did; I spoke to the Social Centre.

Q. And the Social Centre is represented by what person? A. By Father Fortier. There was an executive committee of the Social Centre.

Q. And you made your request to whom? A. To the executive committee of the Social Centre.

Q. How many does that consist of? A. Father Fortier, the Acting Director, myself as Associate Director, Father Walker as Secretary, Father Bergeron, who is on the committee as adviser, and there is Father Sauve.

Q. And you personally made a request to that group to do what? A. To present a brief.

Q. And your request was granted? A. Yes.

Q. Before that request was granted was it taken up with the University authorities? A. Yes.

Q. And they confirmed what the Social Centre had done? A. Yes.

Q. You personally prepared this brief? A. Yes.

Q. Have you consulted, and has it the approval of, anyone else in the University? A. I have the approval of the Social Centre and they discussed the question with the University itself and so I have the approval of the whole institution.

Q. Before you read the brief there are one or two questions that might be helpful. Your brief is a document in support of the cooperative movement, speaking generally?

A. Yes, in general principles.

Q. And you state among other things that the Social Centre aids in putting out pamphlets and literature, conducting courses and all that sort of thing. I want to ask you if the University itself deals with the other side of the picture. Do they send out literature and give addresses with regard to so-called private enterprise as distinct from cooperative, or do they concentrate only on the cooperative side? Do they show the other side of the picture? A. You must give me a chance. The Social Centre does not promote private enterprise; the University deals with that. We deliver courses in the school of commerce relating to private enterprise more so than with regard to cooperatives. But private enterprise has to be defined.

Q. I include in it everything outside cooperatives.

A. Yes; that is right.

Q. This is a brief on behalf of the Social Centre and not on behalf of the University? A. That is right.

Q. It is the Social Centre that puts out any literature pointing out the merits, if it has any, of private enterprise in contrast with the cooperative system? A. We have not done so as yet but we may. We may write a pamphlet on possible changes.

Q. But the Social Centre is recognized in itself as the champion of the cooperative movement and is opposed to the other side, and it is with that in mind that this brief was prepared? A. We must be careful of the word "opposed". We are not necessarily opposing.

Q. Opposing what? A. Private enterprise. We can help private enterprise by cooperation in an indirect way.

BY MR. NADEAU:

Q. You consider the cooperative as private enterprise? A. Oh definitely.

BY MR. VAUGHAN:

Q. Has this brief been submitted to the University of Ottawa and approved by it? A. Definitely.

Q. By the Board of Governors? A. Yes.

BY MR. PARKER:

Q. It is very lengthy. If you feel you are able to do justice to your case by reading selections and making a few comments we would appreciate it.

THE CHAIRMAN: These questions are put to you, Mr. Casselman, for the reason that this is the first university that has come before us as such supporting one body or the other. It is the first occasion on which we have met this and that is why we ask whether it does represent the views of your University. You say it does?

THE WITNESS: Definitely.

BY MR. VAUGHAN:

Q. It can be taken then that the University of Ottawa favours cooperation as against the ordinary kind of business. Is that so? A. No. That is the point. It is not a question of being against anything. Cooperation is an economic enterprise as well as a social enterprise. Cooperation

permits the lower income groups, the poorer class, to become economically emancipated, but it does not involve the question of destroying the profit motive. As you will see in my brief, it may permit the profit motive, and in fact it has done so in other countries. Individual enterprise has increased at the same time as cooperative enterprise. I would not say that we are opposed to the profit motive because I would be committing myself to something that is not true.

THE CHAIRMAN: Is it the function of a University to appear on one side or the other?

THE WITNESS: You are putting me in a difficult position. The Social Centre is one branch of the University.

THE CHAIRMAN: If the brief represents your personal views, that is a different matter. We want to know whether it does, or whether in fact it represents the views of the University of Ottawa.

THE WITNESS: There are three hundred Fathers there and there may be more against than for it; but if they are not on the executive committee their views are not represented here necessarily.

THE CHAIRMAN: Have you a resolution of the Board of Governors of the University authorizing the production of this brief before the Commission?

THE WITNESS: I have not a written resolution, no. I have the permission of the authorities and one expressed to me verbally, though in the presence of a number of people. I represent at the same time the French Canadian Co-operative movement because I am presently organizing a cooperative union.

THE CHAIRMAN: That is all right, if it is your personal brief; but the University is involved. We have had

no brief from the University of Alberta, or Saskatchewan or British Columbia and we do not expect one from McGill or Toronto. That is why we are asking these questions.

THE WITNESS: I wish to say a few words in French.

(After the witness had spoken in French)

I will read what I think is pertinent and, as I go on, indicate the pages I omit. The continuity will not be affected. The brief reads:

"Cooperatives and Taxation

I.

Social Centre's Participation

"Reasons for Social Centre's Submission:

"The Social Centre, founded in 1940, is the Extension Division of the University of Ottawa Graduate School of Political and Social Sciences. The Social Centre is interested in cooperation as a movement, or as means of social reconstruction and of adult education. It does not promote cooperatives directly but it does so indirectly by fostering the idea that the spirit of the movement, by training leaders and lecturers and by training managers and other officers and employees of cooperative institutions. But in all this activity, the Social Centre remains on educational grounds, i. e. it does not go as far as organizing, nor does it take the responsibility for specific cooperatives.

"Functions of the Social Centre:

"The Social Centre performs its work by the following educational mediums; by the showing of films, by writing in the press and in magazines, by distributing available literature on the subject, by sending lecturers out into the field, by the use of radio, by a series of evening courses in residence, by organizing and directing social study clubs by correspondence, and lastly by means of correspondence

courses which permit the Centre to go directly to the student, into his very home. Three such courses have been prepared to date. So far, more than 1,500 students from all parts of Canada and even from the U. S. A. have enrolled. Dozens of cooperatives have sprung from the teachings contained in these courses.

"Stand of the Social Centre:

"The stand of the Social Centre relative to the inquiry of the Royal Commission is as follows: It will defend the opinion that patronage dividends of consumers' cooperatives of all types should not constitute taxable income and that the patronage dividends of producers' cooperatives of the marketing type although constituting taxable personal income are not taxable corporate income. Moreover, it will hold that retained patronage dividends of all types whether withheld as share or loan capital, as reserves or as surplus should not be taxed as corporate income nor as an excess profit.

"Social Centre's Stand not Connected with Positive Law:

"We are not concerned with the immediate legal aspect of the inquiry, which will attempt to arrive at a conclusion as to whether or not cooperatives should be subject to pay income or profit taxes in the application of the statutes now existing. In the first place, we have not the legal competence to take a stand on this matter and in the second place, we do not represent any specific type of cooperative enterprise.

"Social Centre's Stand Connected with Possible Amendments to Positive Law:

"We are concerned with the remote legal aspect of the inquiry inasmuch as we favour amendments to the two acts in question if it is so proved by the results of the Commission

that cooperatives are legally subject to pay corporate income and profit taxes. In other words, we believe the law should coincide with the basic principles involved. If we accept the distinction between patronage dividends and profits in the ordinary enterprise, and we find that existing legislation does not take it into account, then the law should be modified to recognize the distinction. On the other hand, if we discover that existing legislation does distinguish between patronage dividends and profits then so much the more adequately does the law embody what in our opinion are basic principles.

"This is evidently a long term point of view, but it must be taken if the cooperative movement is to survive.

"Social Centre's Stand Based on Economic and Social Principles:

"Our stand will rest on arguments implicitly expressing certain basic principles of the economics, sociology and philosophy involved in the comparison of profit business with cooperative enterprise in ideals, in motive, in composition, in control, in methods and in the effect of cooperatives on the distribution of wealth and on society in general.

III.

Brief Study of Co-operation's Ideals and Principles

"Cooperatives are Socio-Economic Enterprises:

"The cooperative differs from the corporation in being a socio-economic enterprise while the latter is simply an economic institution. The fact that the cooperative is motivated by definite social as well as economic ideals puts it at a disadvantage when competing with profit business. In the first place, it can never use some of the methods practiced by competing profit enterprise even if they were commercially expedient for the cooperative.

In the face of such competition all it can do is to educate the membership and depend on its loyalty. In the second place, these principles are the very obstacles in the way of adequate legislation regulating corporate income taxes and incorporation.

"This must be the starting point in the comparison of cooperatives with profit business. If one does not fully understand the social implications and economic ideals of the movement it will be impossible for one to have a correct understanding of the business principles and methods involved. For, in the final analysis these business or economic methods are nothing more than the practicable or workable expression or manifestation of the social ideals and of the economic ideals. In other words, they are the means or the methods which we are convinced must be used in order to attain these goals.

"The Economic and the Social Ideals of Co-operation:

"Cooperation being a double-barreled movement its idealism penetrates both its economic and its social counterparts. The economic ideals affect the business enterprise, its methods and operations. The social ideals have a direct bearing on the association of persons comprising the society. Particularly as they affect the membership and personal relations.

A -- Ideals Concerning Human Relations.

"1. Universality. Cooperatives make no distinction of sex, race, creed nor colour. Furthermore, by associating consumers as owners and members they make use of the most common and universal of all economic functions; i. e., consumption. In a producers' cooperative the principle of open membership, although limited to bona fide producers, still applies. This ideal of universality finds its direct

workable expression in the Rochdale principles, unchanged and not complemented. It is the only ideal which possesses this characteristic.

"2. Democracy. The Rochdale pioneers were inspired by the democratic spirit. Their democratic idealism incited them to decentralize and to humanize control of business to the fullest extent possible, and still retain economic efficiency. In fact, it is impossible to find a more democratic method of business control which remains commercially sound. This democratic idealism explains the reasons for the following cooperative practices:

- a) The limit of one vote per member irrespective of the number of shares held.
- b) The elimination of voting by proxy.
- c) The requirement of regular reports from the executives.
- d) Constant education to keep the members informed.
- e) The accessibility of the cooperative's books for inspection by the members.

"3. Liberty. Cooperation finds its very roots in man's desire for economic liberty. Moreover, in order to cooperate in the full meaning of the word men must be free. Inspired by this ideal for freedom the Rochdale pioneers inserted liberty as a basic ideal in all phases of cooperative activity which involved the human will. The following are cooperative practices containing the ideal of liberty:

- a) Membership and withdrawal in a cooperative are to be voluntary.
- b) The members are at liberty to patronize the Society.
- c) Since the members are free to purchase or not to

purchase from their society, education, instead of coercion and compulsion, are to be used to foster loyalty.

"4. Fraternity and Unity. Cooperation is the application of the philosophy of brotherhood to the economy. Kawaga, the great Japanese Christian called it 'Brotherhood Economics'. The fact that the cooperative movement is a struggle for survival on the part of the economically weak and oppressed, shows that mutual aid and unity are necessary if they are to work out their emancipation. Furthermore, mutual help and unity are not to be limited to one region or country but are to be extended to all peoples and parts of the earth. This social ideal is projected into cooperative practice by the application of the following Rochdale principles:

- a) The elimination of competition as a necessary economic motive.
- b) The elimination of social and nationalistic prejudices by education.
- c) The practice of cooperation between the various cooperatives.
- d) The exclusion of controversial matters out of cooperative affairs.
- e) The establishment of world peace by spreading the cooperative movement all over the world, and by fostering fraternity and unity between the movement of the various countries.

"5. Self-Help. The Rochdale pioneers helped themselves out of economic misery because no one else would, and because, in any event, they could not depend on the aid offered. By rebelling against a general and well established state of affairs they had to rely on their own energy and

efforts. No help could logically be expected from business interests, nor from any of the agencies that these interests influenced. Their ideal of self-help is given its practical expression in the movement by the following policies:

- a) The rejection of excessive government aid and of useless intervention in cooperative affairs.
- b) The rejection of special privileges from the government or from other agencies which would render it difficult for the movement to stand on its own feet.

"The following statement may surprise those who favour the taxation of cooperatives but it is nevertheless true. If the cooperative movement was convinced that it is receiving special privileges on the part of the government legislation in being granted exemption from income taxes it would not only be willing to pay these taxes but it would actually ask to pay them.

B -- Ideals Concerning the Business Enterprise.

"Economy. Cooperativism despite its social ideals is primarily an economic movement. It was born of the economic misery of the hungry forties for the immediate purpose of increasing the workingmen's real wage. From the beginning, the cooperative was basically a cost-reducing agency using all equitable practices that could reduce expenses. The following are some of the cost-reducing business methods utilized by the Rochdale cooperatives for over one hundred years.

- a) The establishment of a standardized and accurate bookkeeping system.
- b) The periodic auditing of all commercial entries and of the bookkeeping by impartial and competent auditors.
- c) The setting up of adequate depreciation, contingency

and other reserves.

- d) The encouragement of cash trade in order to eliminate losses through bad debts and to encourage thrift on the part of the members.

C -- Ideals Concerning Both Human Relations and the Business Enterprise.

"Equity. A desire to be just, equitable, and fair animated the Rochdale movement from the beginning. As a matter of fact it originated as a reaction against injustice and tyranny in the economic system. It is therefore to be expected that cooperation's idealism would include equity and justice. We find these virtues incorporated in the principles regulating membership and personnel relations and commercial transactions.

"I - Membership Relations.

1. All patrons are to receive equal treatment.
2. Credit is to be done away with, otherwise favoritism will result.

"II - Personnel Relations.

1. Labour is to be justly treated and to receive fair wages.
2. Employees are encouraged to become members of the cooperative that employs them.

"III - Commercial Transactions or the Business Element.

1. The profit motive is to be eliminated and substituted by the motive of service. Therefore, the earnings of cooperative enterprise are to be distributed to the customers in proportion to the amount of business done with the society and not according to the amount of their capital investment. This is the most important economic principle of the whole cooperative movement.

2. Capital invested is only to be rewarded with a limited rate of interest if a reward is given. It is always to be kept in a secondary position in the business. It should be considered as one of the participating elements in the production of wealth but not as the main factor. This principle could be recognized as the second most important economic principle of cooperation.

3. Only the best goods and services are to be made available to the cooperative membership.

"Having looked into the basic ideals or into the soul of cooperativism we are better prepared to analyze and to evaluate the body or the organization and business methods and operations of cooperatives, particularly as they have a bearing on corporate income and the consequent incidence of taxation.

IV.

Arguments Proving Cooperation's Stand for Exemption

"The Service Motive Versus the Profit Motive:

"Business for service is the most important principle of the cooperative movement. Once this is grasped it permits us to distinguish clearly between profit business and cooperative business. This principle contains the economic motive of cooperative enterprise.

"In the ordinary type of business there are three classes of people directly interested; the owners, the employees and the consumers or customers. In recent years, in large scale industry, a fourth one, the managerial group has made its appearance. In some small types of business the owner and employer functions may be identified leaving only two groups.

"The economic motive in each case, regardless of the size of the enterprise, is profit at the expense of the consumer."

I should qualify that and say that it is the primary motive; it is not the only one. Continuing:

"In each case, the profit is constituted by the difference between cost price, including expenses for wages, etc., and the selling price to the ultimate consumer. Here the debate begins. Capitalistic enterprise starting from the concept of profit in its own business, i. e., the difference between cost price and selling price applies it to cooperative business and claims that it is the same in all respects. As will be seen later, it is the same in one respect and this no one denies but we claim it is essentially dissimilar in all other respects.

"In the consumers' and purchasing cooperatives there are only two groups of people directly interested, the employees and the consumers, the latter of whom are at the same time, the owners. In a producers' marketing cooperative there are three classes of persons involved, namely, the employees, the consumers and the producers who are in this case the owners.

"It is universally admitted by cooperators that patronage dividends, or what corresponds to profit in ordinary business, is likewise made up of the difference between cost price and selling price. That no one can deny. But a serious error enters into the picture if we extend the analogy because the motive, the purpose and final destination of the difference between the two prices are entirely different in the case of cooperative business.

"In the case of capitalistic enterprise, the motive that

prompts it to increase the selling price or to lower the cost price is to make a profit. And this profit goes neither to employees nor to consumers but to the ownership interest as a reward for its invested capital. Ordinarily business lives on profit. It lives on the difference between cost price and selling price. If there is no difference and this condition continues, then private enterprise has no longer any reason for existence. It simply fades out of the picture. That no defender of capitalistic enterprise can deny.

"Such is not the case in cooperative business. In the first place, contrary to what we find in ordinary business, the cooperative has no reason for increasing the selling price since the consumers are themselves the owners. There would be no logical reason to overcharge themselves in order to pay higher patronage dividends. Logically they can only work at one end, i. e., reduce costs. Now even if they take the market price as a basic selling price and try to widen the margin between costs and selling price, the selling price is only an arbitrary price usually taken as the market price because of its convenience. If costs could be forecast with exactitude then cooperatives could very well sell at cost prices and therefore have no patronage dividends to distribute. But since such is not the case, cooperatives usually mark up the cost price and usually by transacting at market prices. There are a few exceptions such as certain types of mutual insurance associations which operate at cost price. The market price is convenient for two reasons. In the first place, it eliminates price-cutting competition, and in the second place it permits cooperatives to gauge the efficiency of their operations by comparing patronage dividends so

resulting with capitalistic profits in the same industry.

"From this, it may be seen that the cooperative is basically a cost-reducing organization whereas the commercial enterprise is both a cost-reducing and a selling price determining agency and in the latter case the selling price is not arbitrarily set but is determined by what the market will bear, the higher the price the better.

"The taxation of cooperative retains as corporate income would be a levy on service. The Government would thereby be making cooperators pay a fee for a service which they have rendered themselves.

"Comparison of Government Business with that of Cooperatives:

"By using service as their economic motive, co-operative enterprise resembles government business. In many types of Government business there is not such a thing as a profit, as goods or services are handled at cost plus a small markup for safety's sake. In this case, the savings, instead of being accumulated and returned to the consumers at the end of a certain period, are given immediately to them in reduced prices for the goods or services handled.

"However, in many other instances, owing to the protests of private enterprise, Government business is compelled to charge market prices thereby leaving it with a surplus at the end of the year's operations. But here again, this surplus is not a profit in the ordinary sense. It is rather an overcharge that can be returned to the consumers in proportion to their patronage or returned to the public at large in the form of social services. Moreover, the overcharge is not the motive for which the business is operated; the motive is service, i. e. goods or services at cost.

"The resemblance between government business and co-operative industry ends there, however.

"Destination of Business Benefits:

"Patronage dividends or cooperative overcharges likewise differ from commercial profits in their destination.

"Commercial profits or the difference between cost price and selling price in the ordinary enterprise goes, not to the patrons, but to the ownership interest as a reward for their invested capital.

"In a cooperative the difference between cost and sales price belongs to the patrons or customers and is returned to them as cash patronage dividends or credited to their ownership interest as share or loan capital.

"In the case of consumers' cooperatives the patron is a buyer of the goods or services offered. In the case of a producer's cooperative the patron is a seller of certain goods. But in both cases the patron is a user of, or is serviced by, the facilities of the cooperative. Similarly in both cases, the business benefits are distributed to the patrons in proportion to the amount of business done with the society or in accordance with the extent to which each member has made use of the available facilities. We defy anyone to call this a corporate income or profit no matter how much they stretch their imagination.

"Role of Capital and the Purpose of its Investment:

"Cooperatives differ from corporations in the purpose for which capital is invested and in the role it plays in the two enterprises. We invest capital in a corporation in order to derive monetary gains or to profit enterprise.

Consequently, we must either conclude that millions of co-operators are simply unconscious of the business world about them or that they knowingly and primarily invest, and leave

their investment in cooperative business, because by so doing they will be able to obtain goods or services at lower costs.

"Composition and Location of Control:

"Cooperatives differ essentially from the ordinary capital-stock establishments in their composition and in the location of control.

"A cooperative is an association of persons, not a conglomeration of shares. It is true, that to become a member of a cooperative we must own a certain minimum amount of capital but once this minimum is reached all members are on the same footing as far as the control of the industry is concerned. At all meetings each member has only one vote irrespective of the number of shares held. Control rests in the human factor, or in the fact of being a human being and not in the money element nor in the ownership function.

"Cooperatives remain, throughout their existence, associations of persons, and they never become corporations in the ordinary sense of the word. Consequently, corporate income is something extraneous to cooperative enterprise. Although a cooperative has a separate legal existence from that of the membership, this act of legislative creation does not give the cooperative a separate commercial existence permitting it to make its own profit and income.

"Comparison of Cooperatives with Partnerships:

"From the angle of an association of persons, a cooperative can be likened to a business partnership. They are both composed of persons, not of shares, and partnership income, whether distributed or not, is taxable to the individual partners and not to the partnership. In a similar fashion, patronage refunds, whether distributed or not, should

be taxable (if the tax is applicable) to the patron and not to the cooperative.

"Capital Reserves and Capital Contributions not Taxable:

"It is claimed by some opponents of cooperative exemptions that even if we admit the principle of the cash patronage refund as not constituting taxable income, taxes should be imposed on capital reserves, and capital contributions, made up of retained patronage dividends. This we do not admit.

"All such retains are made pursuant to voluntary agreements with the patrons. Because the patrons actually and voluntarily give up part of their patronage dividends in order to constitute capital reserves or capital contribution does not change the nature of these retains. The patrons voluntarily give them up for the same reason that they invest capital in the cooperative originally, i. e. in order to provide the necessary funds for the operation of the society.

"In fact, these accumulations of capital reserves and of capital investment are the same as if the patronage dividends were paid out in cash and immediately repaid to the cooperative as capital contributions.

"However, here again, the distinction between consumers' and producers' marketing cooperatives must be made. In the case of the former these capital contributions constitute neither taxable personal nor corporate income, whereas in the latter case, they are taxable personal or individual income."

I know many cooperators are of this opinion. I defend it personally and so does the movement I represent. It is likewise the European opinion that patronage dividends

of consumers' cooperatives do not constitute taxable income even to the individual, but that is something over and above the regular submission because what is under discussion is the corporate income. Continuing:

"Consumers' Cooperatives are Extensions of the Household Economy:

"From the divergent motives of cooperatives and corporations issues another basic difference between the two types of institutions.

"Consumers' cooperatives are extensions of the household economy. In fact, we can consider a consumers' cooperative as made up of smaller household or family societies for the purpose of satisfying mutually and collectively their needs for certain goods and services which they cannot supply themselves when acting as individual and separate units. It is for that reason, that in most countries, only one person per household has the right to vote or has a controlling voice at the cooperative meetings. The fact that patronage dividends of consumers' societies agree with the size of the family units is proof enough of this relationship."

This applies to many consumers' cooperatives. There are certain cooperatives that are not concerned essentially or directly with the family. Continuing:

"Producers' Cooperatives are Extensions of the Farm Economy:

"Producers marketing and purchasing cooperatives are in final analysis, extensions of the farm economy. We can consider these cooperative societies as being organized and operated by several individual farm units for the purpose of supplying mutually and collectively their needs for certain goods and services which they cannot supply themselves when acting as individual and separate units.

"In fact, it is impossible to disassociate the producers' cooperative from the individual or separate producing units of which it is composed. This direct relationship is well brought out in the incidence of patronage dividends which are paid to the various producer members in proportion to the amount of business transacted with the cooperative and which in turn vary with the size of the producing unit.

"Consumers' Dividends neither Taxable Personal nor Corporate Income:"

"The patronage dividends paid by consumers', and by producers' purchasing cooperatives, constitute neither taxable personal, nor corporate income. We have already explained why they cannot be considered to be corporate income. They do not constitute taxable personal or individual income because personal income taxes are imposed on the person's total nominal, and not on his real income.

"The patronage dividends of consumers' societies consist of overcharges or of withheld savings. They permit the consumer to obtain more for his money or the same at lower costs.

"It is not any more logical to tax these savings than it would be to tax the savings realized by operating a mere buying club or by simply shopping around and buying where prices are lowest.

"Moreover, we claim that no matter what is done with them, the essential nature of overcharges in the consumers' cooperatives does not change. Whether they are distributed in cash, as share or loan capital, or remain undistributed surplus, or in reserves, their essential nature remains the same. They remain as always funds belonging to the members which are held in trust by the cooperative.

"Producers' Dividends Taxable Personal but not Corporate Income:

"The patronage dividends paid by producers' marketing cooperatives do not constitute corporate income but they do constitute personal or individual nominal income."

I believe most cooperatives concede that point without discussion.

BY MR. ARNASON:

Q. Before you go further with the brief, at the bottom of page 18 you say: "The patronage dividend paid by consumers' and by producers' purchasing cooperatives constitute neither taxable personal nor corporate income."

I was not quite clear as to what you meant by producers purchasing cooperatives. Did you mean the cooperative that purchases farm supplies such as petroleum products?

A. Yes.

Q. It has been pointed out that in the case of the cooperative that handles farm supplies such as petroleum products, which in effect reduce the cost of production, the patronage dividends distributed should constitute taxable income in the hands of the individual. Does your view differ from that? A. Yes. I share the European view on that. It is really secondary or ancillary to my brief. I do not hold that against anybody or wish to defend it at all costs. It is the opinion of the movement I represent but it is secondary to the main submission of the brief. Continuing with brief:

"The dividends resulting from the operation of marketing cooperatives are not savings in the technical sense but underpayments resulting from the receipt of market prices for commodities marketed through the cooperative. It stands to reason that these refunds are increases in the farm

operator's money income. They do not essentially only permit the producer to go further with his other income but they actually add an increment to it. Therefore, they are subject to personal income tax depending naturally upon the producer's other nominal income.

"The Taxation of Patronage Dividends would involve a Double Tax:"

"The taxation of the cooperative's overcharges or underpayments, as if they were corporate income, would compel most cooperators to pay a double tax.

"Members of producers' marketing cooperatives, of credit unions and of other cooperatives, are already paying personal income tax on the patronage dividends and on the interest received from the operation of these societies. The additional taxation of these cooperative institutions as corporations would compel most members to pay two income taxes; one indirectly, the other directly.

"The Cooperative as a School of Training:"

"Owing to the nature, the principles, and the methods of the cooperative, the member is trained to become a better and more enlightened citizen, a more thrifty consumer or producer and a generally more competent individual. The cooperative way of learning is not bookish. It is education by living a more useful and vigorous economic and social life.

"The practice of the philosophy of self-help teaches men to be more self-reliant and more independent of state aid. The application of mutuality, of fraternity, and of unity, trains the membership to be more tolerant, more understanding and more charitable towards their neighbours. By introducing democratic principles in its organization and administration, the cooperative is a school of democracy. Thrift is also taught to the members of both consumers' and producers' societies. These and many other virtues are inculcated

into the members who acquire these good habits unconsciously while participating in the cooperative's affairs.

"It is impossible to measure in dollars and cents, the value of the training thus received. But we do know that, in terms of human and social values, they are priceless. A taxation policy which would consider as equals, the cooperative and the corporation, would be thereby imposing a levy on education.

"Cooperation as a Way of National and International Peace:

"One of the greatest problems facing the world at the present time is the establishment of peace both on national and international levels. Any organization which can contribute to the elimination of racial, religious, and international conflict, deserves to be encouraged. The cooperative movement has been endorsed by the League of Nations, the International Labour Office and the United Nations Relief and Rehabilitation Administration, as being a necessary and valuable means of promoting national unity, as well as peace and harmony between nations.

"Cooperation fosters peace, harmony and unity in three ways. First, on the national level, cooperation trains the individual to be more tolerant, more social, and more charitable towards his neighbour. Second, it encourages international peace by urging close collaboration between the various cooperative federations of all countries of the world. The International Co-operative Alliance, comprising most national cooperative federations established to date, is the outcome of this policy. Third, by substituting the service motive for that of profit, the movement automatically eliminates the greatest causes of all modern wars, the competition for markets, and the conquest and exploitation of

colonies for the sake of profit.

"We are of the opinion that the checking of cooperative development by taxation would be a direct blow to a peace-promoting movement.

"Cooperation and Post-War Development:

"The freedom from want and the freedom from fear which the United Nations plan to uphold during the post-war era imply full employment. And full employment in the technical sense, although practically unattainable, must nevertheless always remain the goal. There are many factors involved in the attainment of a high index of employment, some of which are beyond the compass of cooperation, but many of which can be directly and beneficially influenced by cooperatives.

"The last depression supplied us with tangible evidence of the value of cooperation in stabilizing employment in those countries where the movement controlled an appreciable proportion of the national economy. Cooperatives cannot perform miracles. They cannot be held responsible for unemployment in the profit business sector. But, we have positive evidence that employment in the Swedish, Finnish, Swiss, British and Danish cooperative sectors showed an increase instead of a decrease during the economic depression of 1929-1934. We also know that in Sweden where cooperatives control from 25 to 30 per cent of the total economic activity of the country in many lines, an economic crisis on a national scale was averted. Sweden's index of employment did not drop to any extent when compared with the state of mass unemployment most capitalistic countries were experiencing during the same period.

"Cooperatives promote high and stabilized employment in many ways, some of which are as follows: they eliminate speculation on investment, they adjust production to consumption, they check consumption on anticipated earnings, they decentralize wealth and purchasing power, and they tend to decentralize ownership and the location of industry.

"During the trying times of the post-war period there will be a great need for the stabilizing and tonifying effect of the cooperative movement. A taxation policy which would tend to stem cooperative development would be a direct check to post-war recovery.

V.

Cooperatives and the Distribution of Wealth

'Consumers' Cooperatives Contribute to the Family Wage:

"Consumer cooperation even contributes to the establishment of the family wage, and here again, it outdoes all other systems in the simplicity of the mechanism involved."

In other words, you could call it a system of family allowances. Continuing:

"If we start from the irrefutable fact that expenditures for consumption vary according to the number of consumers in the family, it follows that householders taking advantage of cooperative goods and services will receive patronage dividends in proportion to the size of their respective families. Since the consumption of certain goods does not follow exactly the numerical increase in the size of the family, the correlation between patronage dividends and size of family will not be perfect. However, the relationship will be sufficiently pronounced to supply a sizeable allowance to the family which is grappling with

the problem of balancing its budget.

"Consumers' Cooperatives Distribute Wealth Equitably:

"No other method has yet been devised which realizes a more equitable distribution of wealth than cooperativism, particularly that of the consumer type. The reason is very simple. In any commercial enterprise the consumers are always the greatest number of persons in direct relationship to it."

A locomotive factory may sell locomotives to only a few buyers in the country, but the users of the transportation service would be the consumers in this case. Continuing:

"It is impossible to think of any type of business where the ultimate consumers are not the most numerous group. Even in a large company where the capital stock is distributed over thousands of stockholders, a study of the products or services handled and of their ultimate consumption will prove this statement.

"There is another reason why consumer ownership and control tends to decentralize wealth, and here again as no other system can. Consumption is the most common and the most regular of all the economic functions. We are speaking of consumption of the necessities and of the comforts of everyday life, which concern the cooperative movement. Cooperatives are not interested in luxuries and in socially useless goods and services.

"The consumption of most of the commodities and services handled by the cooperatives for individual members and their families is definitely limited. There is a limit to the number of meals that one may eat per day and to the number of suits that one may own and wear out under normal conditions. Furthermore, by permitting only cash transactions cooperatives

eliminate consumption on anticipated earnings which is one of the plagues of the capitalistic system.

"Therefore consumers' cooperatives, by returning the difference between cost price and selling price to the consumer members, distribute wealth more equitably than the taxation technique can ever hope to, and furthermore at a much lower cost. Taxation is a costly procedure, both for the government and for the group which is to receive the benefits as expenses of collection and of redistribution are excessively high.

"Role of Farmers' Cooperatives in Distributing
Agricultural Wealth:"

"No method has yet been found which distributes wealth and income more equitably among the small scale producers than the application of the cooperatives' technique."

This may be too sweeping a statement; I would say a great many of them. Continuing:

"The majority of farm buildings have shortage on them. Our farmers are fast deteriorating into a population of farm tenants. In fact, in most countries of the world, the government has to come to the direct aid of a near-bankrupt agricultural economy. Cooperatives of both the marketing and purchasing types are the last and only resort left to the farmers whereby they can help themselves out of economic and financial misery. To attack and to weaken the cooperative institutions will benefit no one. On the contrary, if agricultural cooperative development is checked by taxation, everyone will lose by it.

"The government will have to intervene with still greater and more frequent financial grants, while the non-agricultural part of the population would see its own taxes directly or indirectly increased in order to supply

these grants.

"It is true that even with agricultural cooperation development being as it is, the government is still obliged to come to the direct aid of the farmer but the reason for this is that there is not yet enough cooperation among farmers. If all farmers and all the other small-scale producers without exception cooperated to the fullest extent possible the necessity for direct government aid would be reduced to a negligible level.

VI.

Refutation of Arguments Favouring Cooperative Taxation

"Cooperative Expansion will not overburden Profit Business:

"An argument which is presented by the interests which favour the taxing of the business benefits of co-operatives, is that the government loses yearly several millions in revenue which are urgently needed. Then, they extend, the argument and ask the apparently puzzling question: What will happen to our national revenue if these untaxed cooperatives keep on growing in size and in number? Will there not come a time when the tax burden will become unbearable on the part of remaining profit business?

"It must be admitted that these objections appear to be impregnable from the distance but we will find that they do not stand upon close examination.

"In the first place, cooperatives are paying and have been paying taxes, all sorts of taxes, property taxes, school taxes, sales taxes and all other taxes of the revenue-giving type and they are doing this at the same rate as profit business. Cooperatives are not tax-evading institutions. If cooperatives are striving for exemptions from corporate income and from excess profit taxes it is not

a question of not wanting to pay these taxes but rather a matter of the non-existence of income or of profits to be taxed. Cooperatives claim that their methods of doing business eliminates corporate income or profits and therefore they should not be made liable to pay taxes on something that does not exist.

"Moreover, the cooperative movement has always taken the same stand from the very beginning. However, the same cannot be said of other interests which have been in the habit of reversing their decisions every few years probably depending which side put on the most pressure. It is another example of the passing of men and institutions versus the immutability of basic principles. It is likewise a good example of the eternal pursuit of man-made law after truth and fact, the former always being a step or more behind the latter, which is never able to catch up.

"In fact, the implacable attitude of the cooperative movement regarding corporate income and profits was the only tenable one. Had cooperatives reversed it at any time it would have been a repudiation of a basic principle and of the very motive for their existence. Cooperatives are organized for the elimination of corporate income and profits and should the time come when their business operations yield profits instead of service to their members, they will have ceased to exist as cooperatives.

"Regarding the objection that the national revenue will be severely impaired if cooperatives are left to grow and to multiply without paying income and profit taxes we have the following answer.

"Cooperatives, by their method of distributing ownership and wealth, and by organizing all sorts of social

services independently of the state, such as cooperative medicine, cooperative insurance of all types, cooperative recreation and education facilities, and many others, tend to make the individual less dependent on the government for social services and for help.

"Cooperatives are, without a doubt, the most efficient antidote man has ever found against state paternalism. Without even going to a foreign land to prove it, a study of the effects of cooperative development in the Maritime provinces and in the Gaspé Peninsula will substantiate this statement.

"If most countries of the world are suffering from an overdose of taxation, capitalistic interests which cherish the profit motive can only say 'mea culpa'. It is the profit motive which is mainly responsible for this state of affairs. Although the responsibility has been involuntary, the results were nevertheless inevitable because they were inherent in the profit technique. An economy organized exclusively or mainly with the profit motive leads invariably to the concentration of wealth, land tenancy, depression, unemployment and to other social evils and in time is bound to break down leaving the sole responsibility with the government. In most countries this state of affairs had already been reached before this present world war.

"Capitalistic interests therefore, instead of fighting cooperatives should welcome them since they represent the only system yet found, which can effect the emancipation of the masses, the stabilization of the economy and a reduction in the necessity for government intervention and taxation. It accomplishes all this, in addition to

permitting private profit business to continue on its own.

"Men of broad social vision are few and far between. However, now and then society benefits from the wisdom of a man who while proving his practicability as a business executive, also possesses a deep insight into social problems and an extraordinary foresight into the economic world of tomorrow. Such a man was Edward A. Filene, the Boston merchant who revolutionized the methods and organization of retail distribution. This man, an executive and co-organizer of the U. S. Chamber of Commerce and of the International Chamber of Commerce made many prophetic statements and gave capitalistic enterprise much sound advice some of which dealt with cooperatives.

"The following excerpts are from one of his prophetic speeches:

'Instead of worrying over the rise of these consumer cooperatives then, business men who keep abreast of business change will welcome them as reinforcements in the struggle against depression, and as insurance for the continuance of a capitalistic business system. A few years ago, many bankers opposed the credit unions, which are uniformly successful financial cooperatives, lest the movement might take some share of the credit business and of their funds. All intelligent bankers know better now. They are now cooperating and for good reason, with the credit unions; for they know that masses initiated and trained in the sound administration of money and credit will not be led into such movements as the Townsend Plan or schemes to share our wealth by parceling out our capital', and he continues later:

'Business men, I believe, when they fully understand the facts of our business evolution and fully understand the real menace to capitalism, will give these consumer cooperatives their heartiest cooperation.' (1)

- (1) -- From a speech delivered at conference of the International Association of Sales Executives, Hotel Biltmore, New York, April 3, 1936, appearing in "Speaking of Change", page 51.

"Taxation and Equality in Competition:

'Is a cooperative a business?' asks the proponent of cooperative taxation? 'Yes', replies the cooperator.

'Then why do they not want to compete with profit enterprise on equal terms? Why should they not be willing to pay equal taxes?' This is a very valid objection on the part of profit enterprise which is begging for an intelligent answer. We offer the following in refutation and in reply.

"Cooperatives wish to play fair with profit business in absolutely every phase of competition where the two can meet on equal terms. For example, cooperatives pay and have no desire not to pay taxes on property, on foreign exchange, on sales, on imports, on excise, etc., at the same rate as profit enterprise. They wish to receive identical treatment as regards the above factors because they are absolutely alike in nature and are directly comparable. In the case of corporate profit and income the situation is different as cooperatives are in fact organized for the very purpose of eliminating profit and income. We claim that the business benefits resulting from cooperative operations are made up of overcharges or underpayments held in trust and that therefore they are not profit or income. There is a difference in nature or in

essence between retained patronage dividends and profit. They are not directly comparable. It is not a question of evading the tax. Cooperatives have never altered their stand down through the ages even before the advent of corporate income tax legislation. They did not suddenly adopt this definition and conception of the nature of cooperative enterprise for the sake of expediency. In this connection, equality in competition does not enter into the picture. It is not a question of equality nor of inequality, but one of comparing two totally different things. They cannot be treated similarly. However, this is not the whole story.

"When we speak of the competition cooperatives are engaged in with profit enterprise, we are dealing with an entirely different thing than when we treat of competition between profit enterprise itself or of the competition which profit enterprise gives to cooperative business. This is a most important factor. When a cooperative opens its doors next to a profit establishment and draws a number of customers away, it does not do so in order to gain anything for itself. It is the customers themselves who benefit from the operations of the society. Whereas, when a profit establishment is started next to a cooperative although it may not necessarily be to kill the society, the immediate aim is to attract by means of better service or otherwise a certain number of customers for the ultimate aim of making a profit with them. We can clearly see here the difference in motives. In cooperative enterprise, service is the final end, the very purpose for which the business is operated. In profit enterprise, service is only a means to an end, the end being profits. And incidentally, it is in the various

means used towards that end that we find the greatest evils of the capitalistic system and this is where the state has to intervene most frequently. From this angle also we can see that cooperative and profit business can never compete on equal terms because their competitive action is different in motive, in method and in result. And this is not all.

"When profit business complains of inequality in competition they forget a whole set of facts which in part they themselves are proud to emphasize whenever it is a question of determining the weaknesses of the cooperative movement. If one wants to obtain the best presentation of cooperation's problems, we only have to read what official capitalist agencies have to say about the movement. For example, in a bulletin prepared by the United States Chamber of Commerce as well as in a series of magazine articles published in the periodical Canadian Business, every single flaw in the movement is vividly portrayed such as: the apathy of the consumer, the necessity of constant education, the indifference of most people to the small savings possible through cooperation and so forth. It is then our turn to ask a question equally deserving of an intelligent answer. If capitalistic interests are so convinced of the inferiority of cooperation as evidenced by their universal adverse criticism, then why bother and worry so much about it? Why waste so much time and energy trying to check cooperation if it contains within itself its own limiting and disintegrating factors? The question then arises of how can we have them compete on equal terms if the one is comparatively and inherently deficient in the first place. And we have more to add to this.

"In addition to cooperation's inherent weaknesses which cooperators admit and which capitalists emphasize, there is another set of factors which cooperators deplore but which profit enterprise keeps silent about. These also have the effect of weighing competition in favour of profit business. When a cooperative has to compete against profit enterprise, it likewise has to cope and deal with a whole group of institutions and of established habits connected with the profit motive. For example, when a cooperative store is opened it generally has to deal with manufacturers, wholesalers, banks, and other institutions which all live on the profit motive. Even the school, the radio and all the other educational mediums are inspired by the profit motive. In other words, the cooperative is surrounded by a profit-seeking world. When looking at the relative position of cooperatives versus profit enterprise from this angle, it is likewise evident that cooperatives are competing with disadvantageous odds against them.

"Another set of values weakens the position of cooperatives when competing with profit business. They have been alluded to vaguely before. The fact that cooperation is a socio-economic movement with certain social and long-term economic goals to attain prevents the cooperative from using many methods which profit business may employ to advantage. That is what is meant when we say that cooperation's greatest weaknesses are its virtues. They are virtues as far as society is concerned but they may be immediate commercial disadvantages. Profit business does not have to worry about social ideals because profits are its final goal. However, in time the state has to intervene in order to correct its abuses. This compels us to bring out a comparison which seldom has been made. Cooperation

owing to its social and economic idealism and definite principles, is a self-correcting economic system. It obviates almost all of society's economic ills by the simple functioning of its principles which, as we have said before, are manifestations of the ideals. The profit system is not self-correcting. On the contrary, it tends to create all sorts of economic and social problems which the government or state has to correct. The constantly expanding and centralizing governments of most countries are proof of this statement.

"Bearing all the above factors in mind, we are convinced that cooperatives far from competing with profit business on equal terms are definitely in an inferior position. We are not necessarily complaining about it, but we wish at least that it was more generally recognized.

VII.

Recapitulation and Conclusion

"To recapitulate, our plea for cooperative exemption from the payment of corporate income and excess profit taxes is based on the essential differences between co-operatives and profit business; in principle, in method, in motive and in the ultimate effect of their operations. The cooperative movement is not begging for special legislative privileges. On the contrary, it is merely requesting that income and profit tax legislative enactments take into account the radical differences between the two types of enterprise. If it is found by the results of this Commission that the application of the Income War Tax Act and the Excess Profits Tax Act, 1940, make cooperatives legally liable to pay corporate income taxes then the two acts should be amended because they cannot be considered to

be just and equitable legislation.

"Cooperation or the application of the self-help motive is man's last most efficient substitute for a paternalistic and centralized government. Profit business which is striving so ardently to have the cooperatives taxed without realizing the implications and consequences of their actions are attacking the best neighbour and the last friend they will ever have. If the cooperative position is too severely weakened, the inevitable result will be outright socialism, which very few actually want as an ideal but which may be forced upon us as a matter of expediency to meet a state of economic distress for which profit business itself will have been mainly responsible!

.....

BY MR. ELLIOTT:

Q. On page 25 you say: "Cooperatives are organized for the elimination of corporate income and profit." What do you mean there? A. The movement I represent claims that private enterprise is necessary and will continue for a long time to come, probably forever, but something is required to give it tone. There are two methods available; one is the state and the other is by means of cooperation. We favour cooperatives.

THE CHAIRMAN: In that same paragraph on page 25 you say: "...when their business operations yield profits instead of service to their members, they will have ceased to exist as cooperatives."

THE WITNESS: I meant corporate profits in the sense we claim they do not exist.

THE CHAIRMAN: But when profits do exist in a co-operative it is no longer a cooperative?

THE WITNESS: If the cooperative gets profits it is no longer a cooperative. That is the point.

BY MR. PARKER:

Q. Dealing with the last page first, you say: "Finally if cooperatives are taxed as corporations, democracy's last chance for survival will receive a severe blow." What do you mean by that? Democracy is in danger, democracy as we know it in Canada is in danger if cooperatives have to pay taxes. Do you mean that, or is that a bit of extravagance? A. It could be expressed otherwise.

Q. I should think so, and I am asking you the question, do you mean that or is it the extravagance of propaganda? Is that what you mean by it? A. Not necessarily.

Q. Just what do you intend the Commission to take from that statement? Tell us now just what you really intended to say. A. If the movement is too severely weakened the ideals of democracy will be severely weakened.

Q. Would you like to take time to rewrite that sentence so that you will express your real views?

A. I can change it if you wish.

Q. I am asking you if that expresses the views of the University of Ottawa, or do you take that responsibility?

A. I may have worded it more clearly.

Q. I am not talking about what may have been but what is. Are you prepared to say that this statement correctly represents the views of the University of Ottawa, that if cooperatives are taxed as corporations democracy's last chance for survival will receive a severe blow? Think of that for a moment.

BY MR. NADEAU:

Q. I want to make one thing very clear. Are the social centre and the University of Ottawa both the same thing? A. One and the same thing.

Q. Is not the social centre the extension department? A. As part of the University!

Q. It is the extension department? A. Yes.

Q. And in this extension department you teach co-operative principles? A. Yes.

Q. Do you teach anything else? A. So far we have organized only correspondence courses. The extension courses deal only with coöperation. We have many others such as labour unions and we have some dealing with ordinary business enterprise.

Q. I understand that you are largely responsible for this brief. A. Yes.

Q. Did you go with the brief to the authorities of the University of Ottawa and ask their definite approval of it? A. I left the brief with them and that was done by the director of the social centre.

Q. And I understand you have their permission to appear here? A. Definitely.

Q. Did you have their definite permission to speak on behalf of the University of Ottawa? A. Definitely.

THE CHAIRMAN: Did they approve of the sentence to which Mr. Parker refers?

THE WITNESS: There are so many ways of saying things.

THE CHAIRMAN: That sentence is broadcast to the rest of Canada as the opinion of the University of Ottawa on this question. Do you take that responsibility?

THE WITNESS: I can modify it if you wish.

MR. MADEAU: I will tell you what I think of it all. I doubt very much that this statement, especially the one at the end, is the considered view of the University of Ottawa. I think there is a misunderstanding in all that, that you have permission to come before the Commission to express the opinion of the University of Ottawa on the problem.

THE WITNESS: There are three hundred priests in the University and they may have no interest in cooperation or in private enterprise. I will retract that statement.

BY MR. PARKER:

Q. Let us have an understanding on this. You are an intelligent man and you prepared this document. Is it a simple matter for you to tell the Commission whether the document, particularly that concluding statement, which seems to sum up the whole, represents your personal view only or the views of the extension department, namely, the social centre, or whether it represents the view of the entire university authorities speaking as a body. Which is it? Is that clear to you, the difference between the three? Tell us which it represents. A. It represents my personal view except that last sentence. I do not hold to it.

Q. Does this document represent your personal view only or is it the view of the extension department of the University or of the social centre or does it represent the whole university? A. It is my view, it is the view of the social centre, and it is likewise the view of the majority, I would not say all of the executive. Many people would not share every thing that is said there.

MR. VAUGHAN: Did the executive of the University actually read this, the Board of Governors?

BY MR. PARKER:

Q. How many saw the completed document? How many had a chance to read it and did read it? A. I could not say for sure. There were fifty copies.

Q. Did any of them read it? A. Definitely. The director of the social centre did.

Q. And those that did read it approved of it? A. Yes.

Q. Did anybody point out any part that you should not say? A. No.

BY MR. VAUGHAN:

Q. Was that approval given by the members individually to you or did it go before a meeting of the Board?

A. Father Fortier is the director and he saw the Board about it. I would not make a statement and say that the Board actually did study it thoroughly, line by line.

Q. From whom did your authority come -- from some individual, from the Secretary of the Board or from the President of the University? A. It came from the executive of the social centre. They were supposed to see about the authority because as a layman I have no control or voice in University affairs.

Q. Did the President see it? A. I cannot say for sure.

Q. Or the Vice-President? A. One of the Vice-Rectors.

Q. And he has approved of it? A. He has approved it. But if the last statement is objectionable I will retract it.

BY MR. PARKER:

Q. I am not asking you to retract anything. You can

retract the whole brief if you want to. A. There is no necessity for that.

Q. Do you want to retract any part of it? A. I can.

Q. You can make formal application if you wish to retract that statement. Do you want that done? A. Yes.

MR. PARKER: The proponent of the brief asks permission to withdraw that statement and have it deleted.

THE CHAIRMAN: He is at liberty to do that.

BY MR. PARKER:

Q. Why do you want to have it deleted? A. You can say a thing in different ways.

Q. You have asked after this discussion to have that sentence withdrawn. Why? Was it a misstatement?

A. Probably an exaggerated statement.

THE CHAIRMAN: Mr. Casselman, this may be your personal opinion, but you do not want to involve your University in what perhaps is your personal view of the subject, because you are here telling us that this was authorized by the University, and the question has been asked you whether the University is teaching this.

THE WITNESS: We are teaching cooperation.

THE CHAIRMAN: But that is not cooperation.

THE WITNESS: I admit it is an exaggerated statement. May I replace that statement with another?

THE CHAIRMAN: It is deleted.

BY MR. PARKER:

Q. Turn to page twenty one of the brief, the first paragraph. You say: "One of the greatest problems facing the world at the present time is the establishment of peace both on national and international levels the cooperative movement has been endorsed by the League of Nations, the International Labour Office and the United Nations

Relief and Rehabilitation Administration, as being a necessary and valuable means of promoting national unity, as well as peace and harmony between nations." And you quote high authorities in favour of the cooperative movement? A. Yes.

Q. Is there a single word in any of these authorities that says that the usefulness of the cooperative movement would be lessened if cooperatives were taxed in Canada?

A. No.

Q. Is there or is there not? A. Not that I know of.

Q. It is not based on the question of taxation?

A. No.

Q. Have you heard anyone who really objects to the cooperative movement as a movement? Have you not heard many hundreds say it was a good thing to have in the community along with private business and that as such they have no objection to the cooperative movement? Isn't that so? A. I have heard many.

Q. The only question before the Commission is not whether the cooperative movement is good or bad, but, rather, whether the cooperative societies as they function today in the country are being taxed fairly in relation to other business. A. That question brings up many others.

Q. Was not that the main question as you understood it? A. Yes.

Q. You have prepared a forty-page brief, and have you said a single word in it from cover to cover to assist the Commission on the question of whether cooperatives should be taxed? A. Yes.

Q. Your conclusion in a word is that they should not

be taxed on anything? A. On corporate income.

Q. You say in one place that the cooperatives could not survive if they were taxed. A. It would be rendered difficult.

Q. Have you said that they could not survive, or words to that effect: that it would be a death-blow, that it is almost fatal to the continuance of these societies if they are taxed? Is that what you say?

A. A death-blow.

Q. I am not sure of the words, but the idea is that these societies sink or swim according to whether they are taxed or not. A. No.

Q. You don't take that position? A. Definitely not.

BY MR. NADEAU:

Q. You are taking the position that the moment a co-operative becomes spurious, when it is no longer a real cooperative and is making a profit, it should be taxed?

A. Definitely.

Q. So you are giving us assistance as far as that is concerned? A. I believe I am.

Q. I believe there are many good points in your brief, Mr. Casselman, but I think there is a misunderstanding about your authority.

MR. PARKER: That concludes all matters before us at the moment Mr. Chairman.

THE CHAIRMAN: And it brings to a close the first series of our Ottawa sittings.

The Commission thereupon adjourned to meet in Montreal, on Monday, February 19, at 10 a. m.

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